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GENERAL FARM BILL OF 1985
(Wheat, Soybeans, and Feed Grains Programs, and Wheat Referendum)

HEARING

BEFORE THE

SUBCOMMITTEE ON
WHEAT, SOYBEANS, AND FEED GRAINS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 1614

WHEAT REFERENDUM

H.R. 1656

AGRICULTURAL RECOVERY ACT OF 1985

APRIL 18, 1985

Serial No. 99-5
PART 5

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GENERAL FARM BILL OF 1985

(Wheat, Soybeans, and Feed Grains Programs, and Wheat Referendum)

THURSDAY, APRIL 18, 1985

House of Representatives,
Subcommittee on Wheat, Soybeans, and Feed Grains,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Tom Daschle (acting chairman of the subcommittee) presiding.

Present: Representatives Bedell, Volkmer, Evans of Illinois, Glickman, Penny, Bruce, Marlenee, Stangeland, Roberts, Emerson, Evans of Iowa, Smith, and Schuette.

Staff present: John E. Hogan, minority counsel; Mark Dungan, minority associate counsel; Peggy L. Pecore, clerk; Bernard Brenner, Eugene Moos, Thomas F. Neville, and Gary R. Mitchell.

OPENING STATEMENT OF HON. TOM DASCHLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Daschle [acting chairman]. The subcommittee will come to order.

Chairman Foley had to be out of town unexpectedly and has asked me to chair the hearing this morning.

This is the first hearing of the Wheat, Soybeans, and Feed Grains Subcommittee to review the wheat and soybeans and feed grains titles of the farm bill, including the bill introduced by Mr. Foley, H.R. 1614, and the bill introduced by Mr. Glickman, H.R. 1656.

We have close to 20 witnesses today. Therefore, without objection, we will be calling the witnesses up in panels. We will ask that each panel member be limited to 5 minutes of oral presentation, and we will be asking questions en bloc of the panel at the end of the presentation.

There are a number of other subcommittee meetings going on this morning, which is unfortunate, but which in part explains the absence of a lot of our members. I am sure they will be coming in throughout the day, but we need to get started if we are going to conclude on schedule this afternoon.

There is material that needs to be submitted for the record. I ask unanimous consent at this time that they be so included.

[The prepared statement of Mr. Marlenee, H.R. 1614, the report from the U.S. Department of Agriculture, and H.R. 1656 follow:]

OPENING STATEMENT OF THE HONORABLE RON MARLENEE

WHEAT, SOYBEANS AND FEED GRAINS SUBCOMMITTEE

April 18, 1985

Mr. Chairman, before we begin to hear from our distinguished panelists this morning, I think it may be appropriate to note the sad event which has required the presence today of Chairman Tom Foley in Spokane. That event is the passing of Tom's father from this world. Chairman Foley's father was a distinguished jurist and I know I speak particularly for this side of the aisle, but I suspect, for the entire subcommittee, when I say we remember Tom Foley and his family now in their time of loss and sorrow.

Mr. Chairman, I would just like to welcome our witnesses here before the subcommittee today. I see from the witness list that many of them are distinguished and that one of them is Henry Nesham, President of the National Association of Wheat Growers, from my neighboring North Dakota. Welcome!

Mr. Chairman, one additional quick but vital point. My view is that we must be innovative and creative in crafting a new farm bill. What we have is not working, there's no question about that! We must maintain a form of an income support device. I know of no substantial sentiment to abandon the goal of income support. However, in my view we must try to do better than just to circle the wagons, hunker down and preserve the programs we have. Saving the family farm is not enough! We must be willing to give very serious consideration to new export initiatives, particularly when we have crops such as wheat with 60 to 70% of our crops available for export. In my view, these export initiatives should include Export Certificates redeemable either in cash or in "Bonus Bushel" surplus CCC commodities, and also the marketing loan concept. These proposals have as their goals restoring our competitive ability in export markets while maintaining farm and producer income.

Thank you, Mr. Chairman.

99TH CONGRESS
1ST SESSION

H. R. 1614

To extend the time for conducting the referendum with respect to the national marketing quota for wheat for the marketing year beginning June 1, 1986.

IN THE HOUSE OF REPRESENTATIVES

MARCH 20, 1985

Mr. FOLEY (for himself, Mr. ENGLISH, Mr. BRUCE, Mr. GLICKMAN, Mr. PENNY, Mr. BEDELL, Mr. MARLENEE, Mr. ROBERT F. SMITH, and Mr. VOLKMER) introduced the following bill; which was referred to the Committee on Agriculture

---

A BILL

To extend the time for conducting the referendum with respect to the national marketing quota for wheat for the marketing year beginning June 1, 1986.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 336 of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1336) is amended by striking out the last sentence and inserting in lieu thereof the following: "Notwithstanding any other provision hereof, the referendum with respect to the national marketing quota for wheat for the marketing year beginning June 1, 1986, may be conducted not later than thirty days after adjournment sine die of the first session of the Ninety-ninth Congress.".

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

MAY 31 1985

Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in reply to your request for a report on H.R. 1614, a bill "To extend the time for conducting the referendum with respect to the national marketing quota for wheat for the marketing year beginning June 1, 1986."

The Department strongly opposes the enactment of this bill.

H.R. 1614, as reported by the Committee on Agriculture, provides for the extension of time for conducting the referendum with respect to the national marketing quota for wheat for the marketing year beginning June 1, 1986. The referendum shall not be conducted before thirty days after adjournment sine die of the 1st Session of the 99th Congress.

A delay in holding the referendum would postpone wheat producer decisions as to 1986 crop plantings. We believe most producers would consider the early announcement of a marketing quota and acreage allotment program preferable to a late announcement since this would avoid misunderstandings, dispel rumors as to program content, and avoid costs and probably errors which would be incurred in implementing a program at the last minute.

Producers have frequently complained that enactment of major farm legislation has always been too late to allow adequate planning for the next year's crop. If the referendum is conducted to determine whether a marketing quota and acreage allotment program will be in effect for wheat, producers will have the benefit of knowing what the program will be and will have the opportunity to make contingency plans on that basis should no new legislation be enacted.

If the referendum is postponed now and no new legislation is enacted, producers would be left in a quandary until such time as the legislative issue was resolved. Further, if at the last moment (adjournment sine die of the 1st Session of the 99th Congress) no new legislation is enacted, it would be virtually impossible to then implement the mandated statutory requirements of the Agricultural Adjustment Act of 1938 involving marketing quotas and acreage allotments without severe hardship on the part of winter wheat producers.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

John R Block

99th CONGRESS
1st Session

H. R. 1656

To provide price and income protection for farmers; to make persons who produce agricultural commodities on highly erodible land ineligible for certain agriculture-related programs; to require the collection and dissemination of financial information with respect to certain grain storage facilities; and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

March 21, 1985

Mr. Glickman introduced the following bill; which was referred to the Committee on Agriculture

---

A BILL

To provide price and income protection for farmers; to make persons who produce agricultural commodities on highly erodible land ineligible for certain agriculture-related programs; to require the collection and dissemination of financial information with respect to certain grain storage facilities; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Agricultural Recovery Act of 1985".

TITLE I—PRICE SUPPORT FOR AGRICULTURAL COMMODITIES

SEC. 101. NATIONAL AGRICULTURAL COST OF PRODUCTION STANDARDS REVIEW BOARD.

(a) FUNCTIONS OF BOARD.—Section 1007 of the Agriculture and Food Act of 1981 (7 U.S.C. 4103) is amended—

(1) in paragraph (4) by striking out "and" at the end thereof,

(2) in paragraph (5) by striking out the period at the end thereof and inserting in lieu thereof "; and", and

(3) by adding at the end thereof the following new paragraph:

"(6) for each of the 1986 through 1989 crops of wheat and feed grains, determine the average cost of production per acre of the kind of the commodity involved for the 2 crop years immediately preceding the crop year for which such determination is made and submit to the Secretary of Agriculture a report containing determinations made under this paragraph. Such cost of production may be determined on the basis of such information as the Board finds necessary and appropriate and may include variable costs, machinery ownership costs, and general farm overhead costs, allocated to the kind and crop of the commodity involved in proportion to the value of the total production derived from such kind and crop of such commodity.".

(b) EXTENSION OF BOARD.—Section 1014 of the Agriculture and Food Act of 1981 (7 U.S.C. 4110) is amended by striking out "1985" and inserting in lieu thereof "1989".

SEC. 102. PRICE SUPPORT FOR 1986 THROUGH 1989 CROPS OF WHEAT.

(a) LOANS AND PURCHASES FOR WHEAT.—Section 107B(a) of the Agricultural Act of 1949 (7 U.S.C. 1445b-1(a)) is amended—

(1) by inserting "(1)" after "(a)", and

(2) by adding at the end thereof the following new paragraph:

"(2)(A) The Secretary shall make available to producers loans and purchases for each of the 1986 through 1989 crops of wheat.

"(B) The level of loans and purchases for a kind of a crop of wheat shall be equal to the national average market price of such kind of such crop of wheat during the marketing years of the 3 crops of such kind of wheat preceding the crop for such loans and purchases are being provided, adjusted to reflect differences in the quality and location of the stocks of the commodity with respect to which loans or purchases are made available.

"(C) The term of any loan made under this paragraph shall be 270 days.".

(b) PRICE DEFICIENCY PAYMENTS FOR WHEAT.—Section 107B(b)(1) of the Agricultural Act of 1949 (7 U.S.C. 1445b-1(b)(1)) is amended—

(1) in subparagraph (A) by striking out "1985" and inserting in lieu thereof "1989",

(2) in the second sentence of subparagraph (C) by striking out "such established price" and inserting in lieu thereof "established price for the 1982 through 1985 crops of wheat",

(3) in subparagraph (D) by striking out "subsection (a)" and inserting in lieu thereof "subsection (a)(1)",

(4) by redesignating subparagraph (E) as subparagraph (F), and

(5) by inserting after subparagraph (D) the following new subparagraph:

"(E) The established price for the respective kinds of the 1986 through 1989 crops of wheat shall be not less than the higher of 65 per centum of the parity price therefor or the average cost of production per bushel of the kind of such crop involved—

"(i) as determined by the National Agricultural Cost of Production Standards Review Board, under section 1007(6) of the Agriculture and Food Act of 1981; or

"(ii) if the Secretary finds, and publishes in the Federal Register a statement of such finding, that the determination made by such Board is excessive, the average cost of production of the kind of the crop of wheat involved, determined by the Secretary under subparagraph (C)(i) of this paragraph but without adjustment.".

(c) Date of Announcement of National Program Acreage for Wheat.—Section 107B(c)(1) of the Agricultural Act of 1949 (7 U.S.C. 1445b-1(c)(1)) is amended—

(1) in the first sentence by striking out "1985" and inserting in lieu thereof "1989",

(2) in the second sentence by striking out "1982 crop" and all that follows through the period, and inserting in lieu thereof "1986 through 1989 crops, the proclamation shall be made not later than June 1 of each calendar year for the crop harvested in the next succeeding calendar year.", and

(3) in the fourth sentence—

(A) by inserting "(i) in the case of the 1982 through 1985 crops of wheat" after "will produce", and

(B) by inserting before the period at the end thereof "and (ii) in the case of the 1986 through 1989 crops of wheat, the quantity (less imports) that the Secretary estimates will be utilized domestically, and for reserves owned or controlled by the Secretary of the Commodity Credit Corporation, during the marketing year for such crop".

(d) INDIVIDUAL FARM PROGRAM ACREAGE FOR WHEAT.—

Program allocation factor for wheat.—Section 107B(c)(2) of the Agricultural Act of 1949 (7 U.S.C. 1445b–1(c)(2)) is amended by striking out "80 per centum" and inserting in lieu thereof "50 per centum".

(e) DATE OF ANNOUNCEMENT OF ACREAGE LIMITATION AND SET-ASIDE PROGRAMS FOR WHEAT.—The last sentence of section 107B(e)(1)(A) of the Agricultural Act of 1949 (7 U.S.C. 1445b–1(e)(1)(A)), as in effect for the 1982 through 1984 crops of wheat, is amended by striking out "1982 crop" and all that follows through the period at the end thereof, and inserting in lieu thereof "1986 through 1989 crops, the Secretary shall announce such program not later than June 1 prior to the calendar year in which the crop is harvested.".

(f) RESTRICTIVENESS OF ACREAGE REDUCTION PROGRAMS.—Section 107B(e) of the Agricultural Act of 1949 (7

U.S.C. 1445b–1(e)) is amended by adding at the end thereof the following new paragraph:

"(9) Notwithstanding any other provision of law, in carrying out acreage limitation, set-aside, and land diversion programs for the 1986 through 1989 crops of wheat, the Secretary shall permit, at the request of the State committee established under section 8(b) of the Soil Conservation and Domestic Allotment Act for a State and subject to such terms and conditions as the Secretary may prescribe that are in no event more restrictive than those in effect for producers who participated in the acreage reduction program for the 1984 crop of wheat, all or any part of the acreage diverted from production under such programs by participating producers in such State to be devoted to haying and grazing.".

(g) CONFORMING AMENDMENTS.—

(1) TECHNICAL AMENDMENTS.—

(A) AMENDMENT TO HEADING.—The heading for section 301 of the Agriculture and Food Act of 1981 (Public Law 97–98; 95 Stat. 1221) is amended by striking out "1985" and inserting in lieu thereof "1989".

(B) AMENDMENT TO TEXT.—Section 301 of the Agriculture and Food Act of 1981 (Public Law 97–98; 95 Stat. 1221) is amended by striking out "1985" the first place it appears and inserting in lieu thereof "1989".

(2) NONAPPLICABILITY OF CERTIFICATE REQUIREMENTS FOR WHEAT.—Section 302 of the Agriculture and Food Act of 1981 (Public Law 97-98; 95 Stat 1227) is amended by striking out "1986" and inserting in lieu thereof "1990".

(3) SUSPENSION OF MARKETING QUOTAS AND PRODUCER CERTIFICATE PROVISIONS FOR WHEAT.—Sections 303, 304, and 305 of the Agriculture and Food Act of 1981 (Public Law 97-98; 95 Stat. 1227) are each amended by striking out "1985" and inserting in lieu thereof "1989".

SEC. 103. PRICE SUPPORT FOR 1986 THROUGH 1989 CROPS OF FEED GRAINS.

(a) LOANS AND PURCHASES FOR FEED GRAINS.—Section 105B(a) of the Agricultural Act of 1949 (7 U.S.C. 1444d(a)) is amended—

(1) in paragraph (1)—

(A) by inserting "(A)" after "SEC. (a)(1)", and

(B) by adding at the end thereof the following new subparagraph:

"(B)(i) The Secretary shall make available to producers loans and purchases for each of the 1986 through 1989 crops of corn.

"(ii) The level of loans and purchases for a kind of a crop of corn shall be equal to the national average market price of such kind of such crop of corn during the marketing years of the 3 crops of such kind of corn preceding the crop for such loans and purchases are being provided, adjusted to reflect differences in the quality and location of the stocks of the commodity with respect to which loans or purchases are made available.

"(iii) The term of any loan made under this paragraph shall be 270 days.", and

(2) in paragraph (2) by striking out "1985" and inserting in lieu thereof "1989".

(b) PRICE DEFICIENCY PAYMENTS FOR FEED GRAINS.—Section 105B(b)(1) of the Agricultural Act of 1949 (7 U.S.C. 1444d(b)(1)) is amended—

(1) in subparagraph (A) by striking out "1985" and inserting in lieu thereof "1989",

(2) in the second sentence of subparagraph (C) by striking out "such established price" and inserting in lieu thereof "established price for the 1982 through 1985 crops of corn",

(3) in subparagraph (D) by striking out "subsection (a)(1)" and inserting in lieu thereof "subsection (a)(1)(A)",

(4) by redesignating subparagraphs (E) and (F) as subparagraphs (F) and (G), respectively, and

(5) by inserting after subparagraph (D) the following new subparagraph:

"(E) The established price for the respective kinds of the 1986 through 1989 crops of feed grains shall be not less than the higher of 65 per centum of the parity price therefor or the average cost of production per bushel of the kind of such crop involved—

"(i) as determined by the National Agricultural Cost of Production Standards Review Board, under section 1007(6) of the Agriculture and Food Act of 1981, or

"(ii) if the Secretary finds, and publishes in the Federal Register a statement of such finding, that the determination made by such Board is excessive, the average cost of production of the kind of the crop of corn involved, determined by the Secretary under subparagraph (C)(i) of this paragraph but without adjustment.".

(c) DATE OF ANNOUNCEMENT OF NATIONAL PROGRAM ACREAGE FOR FEED GRAINS.—Section 105B(c)(1) of the Agricultural Act of 1949 (7 U.S.C. 1444d(c)(1)) is amended—

(1) in the first sentence by striking out "1985" and inserting in lieu thereof "1989",

(2) in the second sentence by striking out "1982 crop" and all that follows through the period at the end thereof, and inserting in lieu thereof "1986 through 1989 crops, the proclamation shall be made not later than October 15 of each calendar year for the crop harvested in the next succeeding calendar year.", and

(3) in the fourth sentence—

(A) by inserting "(i) in the case of the 1982 through 1985 crops of feed grains" after "will produce", and

(B) by inserting before the period at the end thereof "and (ii) in the case of the 1986 through 1989 crops of feed grains, the quantity (less imports) that the Secretary estimates will be utilized domestically and for reserves owned or controlled by the Secretary of the Commodity Credit Corporation, during the marketing year for such crop".

(d) INDIVIDUAL FARM PROGRAM ACREAGE FOR FEED GRAINS.—Program allocation factor for feed grains.—Section 1075(c)(2) of the Agricultural Act of 1949 (7 U.S.C.

1444d(c)(2)) is amended by striking out "80 per centum" and inserting in lieu thereof "50 per centum".

(e) DATE OF ANNOUNCEMENT OF ACREAGE LIMITATION AND SET-ASIDE PROGRAMS FOR FEED GRAINS.—The last sentence of section 107B(e)(1)(A) of the Agricultural Act of 1949 (7 U.S.C. 1444d(e)(1)(A)), as in effect for the 1982 and 1983 crops of feed grains, is amended by striking out "1982 crop" and all that follows through the period at the end thereof, and inserting in lieu thereof "the 1986 through 1989 crops, the Secretary shall announce such program not later than October 15 prior to the calendar year in which the crop is harvested.".

(f) CONFORMING AMENDMENTS.—

(1) TECHNICAL AMENDMENTS.—

(A) AMENDMENT TO HEADING.—The heading for section 401 of the Agriculture and Food Act of 1981 (Public Law 97-98; 95 Stat. 1227) is amended by striking out "1985" and inserting in lieu thereof "1989".

(B) AMENDMENT TO TEXT.—Section 401 of the Agriculture and Food Act of 1981 (Public Law 97-98; 95 Stat. 1227) is amended by striking out "1985" the first place it appears, and inserting in lieu thereof "1981".

(2) INAPPLICABILITY OF SECTION 105 OF THE AGRICULTURAL ACT OF 1949.—Section 402 of the Agriculture and Food Act of 1981 (Public Law 97-98; 95 Stat. 1234) is amended by striking out "1985" each place it appears and inserting in lieu thereof "1989".

SEC. 104. PERSONAL LIABILITY OF PRODUCERS.

Notwithstanding section 405 of the Agricultural Act of 1949 (7 U.S.C. 1425), no loan may be made after the date of the enactment of this Act under section 105B or section 107B of such Act to a producer with respect to whom there are, on the date such loan is made, outstanding loans made under either or both of such sections which have an aggregate principal amount exceeding $200,000 unless such producer agrees to be personally liable for the principal and interest (if any) payable under such loan.

SEC. 105. RELATED AMENDMENTS.

(a) PAYMENT LIMITATIONS.—Section 1101 of the Agriculture and Food Act of 1981 (7 U.S.C. 1308) is amended by striking out "1985" each place it appears and inserting in lieu thereof "1989".

(b) COMMODITY CREDIT CORPORATION SALES PRICE RESTRICTIONS FOR WHEAT AND FEED GRAINS.—Section 1103 of the Agriculture and Food Act of 1981 (Public Law

97-98; 95 Stat. 1264) is amended by striking out "1985" and inserting in lieu thereof "1989".

(c) APPLICATION OF TERMS IN AGRICULTURAL ACT OF 1949.—Section 1104 of the Agriculture and Food Act of 1981 (Public Law 97-98; 95 Stat. 1264) is amended by inserting "(and the 1986 through 1989 crops of wheat and feed grains)" after "rice" the first place it appears.

(d) SUPPLEMENTAL SET-ASIDE AUTHORITY.—Section 1105 of the Agriculture and Food Act of 1981 (Public Law 97-98; 95 Stat. 1264) is amended by striking out "1985" and inserting in lieu thereof "1989".

(e) NORMAL SUPPLY.—Section 1107 of the Agriculture and Food Act of 1981 (7 U.S.C. 1310a) is amended by inserting "(or any of the 1986 through 1989 crops of wheat or feed grains)" after "1985 crops of such commodity".

(f) NORMALLY PLANTED ACREAGE AND PRICE DEFICIENCY PAYMENTS.—Section 1001 of the Food and Agriculture Act of 1977 (7 U.S.C. 1421 note) is amended by striking out "1985" each place it appears and inserting in lieu thereof "1989".

SEC. 106. PRODUCTION REDUCTION PROGRAM.

The Secretary shall provide for a production reduction program for the 1986, 1987, 1988, and 1989 crops of wheat and feed grains sufficient to result in a production reduction of at least 10 per centum of the producers production for the

1985 crop of wheat and feed grains. A producer who produces wheat and feed grains in excess of the reduction level provided for in this program shall be ineligible for loans and payments with respect to that farm for that crop of wheat or feed grains.

TITLE II—EXPORT AUTHORITIES

SEC. 201. EXTENSION OF EXPORT CREDIT REVOLVING FUND.

Section 4(d)(6) of the Food For Peace Act of 1966 (7 U.S.C. 1707a(d)(6)) is amended by striking out "1985" each place it appears and by inserting in lieu thereof "1989".

SEC. 202. SPECIAL STANDBY EXPORT SUBSIDY PROGRAM.

(a) IMPLEMENTATION OF PROGRAM.—Section 1203(b) of the Agriculture and Food Act of 1981 (7 U.S.C. 1736i(b)) is amended—

(1) by striking out "may implement" and inserting in lieu thereof "shall implement",

(2) in paragraph (1)—

(A) by redesignating subparagraphs (A) and (B) as clauses (i) and (ii), respectively, and

(B) by inserting "(A)" after "(1)",

(3) by redesignating paragraph (2) as subparagraph (B),

(4) in paragraph (3)—

(A) by striking out "(3)" and inserting in lieu thereof "(C)", and

(B) by striking out the period at the end thereof and inserting in lieu thereof "; or",

(5) by adding at the end thereof the following new paragraph:

"(2) makes a determination that the Commodity Credit Corporation owns or controls excessive stocks of agricultural commodities.".

(b) USE OF COMMODITY CREDIT CORPORATION STOCKS IN PROGRAM.—Section 1203(c) of the Agriculture and Food Act of 1981 (7 U.S.C. 1736i(c)) is amended by inserting ", including stocks of agricultural commodities owned or controlled by such Corporation," after "Corporation".

TITLE III—SOIL CONSERVATION

Subtitle A—General Provisions

SEC. 301. DEFINITIONS.

As used in this title—

(1) the term "agricultural commodity" means any agricultural commodity planted and produced by annual tilling of the soil, or on an annual basis by one-trip planters,

(2) the term "conservation district" means any district or unit of State or local government formed under State or territorial law for the express purpose of developing and carrying out a local soil and water

conservation program. Such districts or units of State or local government may be called "conservation districts", "soil conservation districts", "soil and water conservation districts", "resource conservation districts", "natural resource districts", "land conservation committees" or a similar name,

(3) the term "erosion-prone cropland" means land that is classified by the Soil Conservation Service of the Department of Agriculture as class IIIe, IVe, VI, VII, or VIII land under the land capability classification system in effect on the date of enactment of this Act and that has been devoted to the production of an agricultural commodity in three out of the past five years, or any other land in a State that the Soil Conservation Service determines has an erosion rate, in the production of an agricultural commodity, that is equal to or greater than the average erosion rate in the same State on any of the foregoing classes of land,

(4) the term "field" means that term as defined in section 718.2 of title 7 of the Code of Federal Regulations, except that any highly erodible land on which an agricultural commodity is produced after the date of enactment of this Act and which is not exempt under section 202 shall be considered as part of the field in

which such land was included on such date of enactment,

(5) the term "highly erodible land" means land classified by the Soil Conservation Service of the Department of Agriculture as class IVe, VIe, VII, or VIII land under the land capability classification system in effect on the date of enactment of this Act, or any other land in a State that the Soil Conservation Service determines would have an erosion rate, if that land is used to produce an agricultural commodity, that is equal to or greater than the average erosion rate in the same State on any of the foregoing classes of land, and

(6) the term "Secretary" means the Secretary of Agriculture.

Subtitle B—Program Ineligibility For Production on Highly Erodible Land

SEC. 310. GENERAL RULE OF INELIGIBILITY.

Except as provided in sections 311 and 336(c) and notwithstanding any other provision of law, following the date of enactment of this Act any person who during any crop year produces an agricultural commodity on highly erodible land on a field on which such highly erodible land is the predominant class shall be ineligible, as to any commodity produced during that crop year by such person, for—

(1) any type of price support or payments made available under the Agricultural Act of 1949 (7 U.S.C. 1421 et seq.), the Commodity Credit Corporation Charter Act (15 U.S.C. 714 et seq.), or any other Act,

(2) a farm storage facility loan under section 4 of the Commodity Credit Corporation Charter Act (15 U.S.C. 714b(h)),

(3) crop insurance under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.),

(4) a disaster payment under the Agricultural Act of 1949 (7 U.S.C. 1421 et seq.), or

(5) a loan made, insured, or guaranteed under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) or any other provision of law administered by the Farmers Home Administration, if the Secretary determines that such loan will be used for a purpose that will contribute to excessive erosion on such field.

SEC. 311. EXEMPTIONS.

(a) PERSONS EXEMPT.—Section 310 shall not apply to any person who, during any crop year, produces an agricultural commodity on highly erodible land on a field on which such highly erodible land is the predominant class if all the commodities so produced by such person during that crop year were—

(1) produced on any land that was cultivated to produce any of the 1973 through 1985 crops of agricultural commodities,

(2) planted before the date of enactment of this Act,

(3) planted during any crop year beginning before the date of enactment of this Act, or

(4) produced—

(A) in an area within a conservation district under a conservation system that has been approved by a conservation district after it has been determined that the conservation system is in conformity with technical standards set forth in the Soil Conservation Service technical guide for that conservation district, or

(B) in an area, not within a conservation district, under a conservation system determined by the Secretary to be adequate for the production of such agricultural commodity on highly erodible land.

(b) LAND EXEMPT.—Section 310 shall not apply to any highly erodible land during any crop year if such land was planted in reliance on the determination by the Soil Conservation Service that such land was not highly erodible land. The exemption allowed by the subsection shall not apply to any crop which was planted on any land after the Soil Conservation Service determines such land to be highly erodible land.

(c) LOANS EXEMPT.—Section 310 shall not apply to any loan made before the date of enactment of this Act.

SEC. 312. COMPLETION OF LAND CAPABILITY CLASSIFICATION SURVEYS.

The Secretary shall, as soon as practicable, complete soil surveys on those private lands that have not been classified as to land capability, and, insofar as possible, concentrate on those localities where significant amounts of highly erodible land are being converted to the production of agricultural commodities. In addition to other sums authorized to be appropriated by this title, such sums as may be necessary are authorized to be appropriated to carry out this section.

Subtitle C—Cropland Base Protection Study

SEC. 320. REPORT.

On or before February 15, 1986, the Secretary shall submit to the chairman of the Committee on Agriculture of the House of Representatives and the chairman of the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report containing a detailed study and analysis, including legislative recommendations where appropriate, of various voluntary set-aside programs, including those recommended by farm or conservation groups. Such study shall include an analysis of a program under which persons who set aside cropland to approved perennial grasses or legumes as part of a crop rotation pattern to reduce soil erosion or build soil productivity—

(1) may qualify under future commodity stabilization programs to have such lands designated as cropland in rotation for the purpose of establishing a normal acreage base for the farm, or

(2) may designate such cropland as set-aside or conserving-use acreage under such programs.

Such study shall also include an analysis of the impact of any voluntary set-aside program on water quality.

SEC. 321. ANALYSIS OF DEPARTMENT OF AGRICULTURE CONSERVATION PROGRAMS.

(a) CONDUCT OF STUDY.—The Secretary shall conduct an economic study of the costs and benefits of all current soil conservation programs, including research and extension efforts. This study shall be led by the Economic Research Service of the Department of Agriculture. Agencies responsible for administering soil conservation programs of the Department of Agriculture will be responsible for providing necessary data and assistance as required to complete the study.

(b) CONTENT OF STUDY.—The study will emphasize an economic analysis of current Department of Agriculture soil conservation programs. The cost-benefit, both direct and indirect, analyses of these programs should be measured and compared to a situation in which no such programs were in effect. The benefits measured should include, but not necessarily be limited to, increases in, or maintenance of, onsite program benefits, such as topsoil maintenance and soil productivity, and offsite program benefits, such as improved water quality and reduced dredging. Program costs should include, but not necessarily be limited to, State and local matching funds and direct or indirect costs imposed on those outside Federal, State and local governments, who assist with, or take part in, Department of Agriculture conservation programs.

(c) REPORT.—The Secretary shall submit to the chairman of the Committee on Agriculture of the House of Representatives and the chairman of the Committee on Agriculture, Nutrition, and Forestry of the Senate a report containing the results of this study within nine months after the date of enactment of this Act.

Subtitle D—Conservation Reserve Program

SEC. 330. FORMULATION AND IMPLEMENTATION OF PROGRAM.

Notwithstanding any other provision of law, the Secretary shall formulate and carry out a program with owners and operators of erosion-prone cropland to assist them in conserving and improving the soil and water resources of their farms or ranches. In any such program, the Secretary shall include other than erosion-prone cropland upon a demonstration by the conservation district that a serious soil erosion problem exists on such land, or in an area not within a conservation district if the Secretary determines that such a serious soil erosion problem exists.

SEC. 331. CONTRACTS.

(a) AUTHORITY TO MAKE CONTRACTS.—The Secretary shall enter into contracts during the period beginning October 1, 1985, and ending September 30, 1988, of not less than 7 nor more than 15 years for the purpose of carrying out this subtitle. In such contract, the owner or operator shall agree to—

(1) effectuate during the agreement period a plan approved by a conservation district (or in an area not within a conservation district, a plan approved by the Secretary) for converting erosion-prone cropland normally devoted to the production of an agricultural commodity on a farm or ranch into a less intensive use, such as pasture, permanent grass or legumes, or trees substantially in accordance with the schedule outlined therein, except to the extent that any requirements thereof are waived or modified by the Secretary,

(2) forfeit all rights to further payments under the contract and refund to the United States all payments, with interest, received thereunder upon the violation of the contract at any stage during the time the owner or operator has control of the land if the Secretary, after considering the recommendations of the soil conservation district and the Chief of the Soil Conservation Service, determines that such violation is of such a nature as to warrant termination of the contract, or make refunds or accept such payment adjustments as the Secretary may deem appropriate if the Secretary determines that the violation by the owner or operator does not warrant termination of the contract,

(3) upon transfer of the owner or operator's right and interest in the farm or ranch during the contract period, forfeit all rights to further payments under the contract and refund to the United States all payments received thereunder, or accept such payment adjustments or make such refunds as the Secretary may deem appropriate and consistent with the objectives of this subtitle, unless the transferee of any such land agrees with the Secretary to assume all obligations under the contract,

(4) not conduct any harvesting or grazing or otherwise make commercial use of the forage or trees on

land that is subject to the contract unless it is expressly permitted in the contract, or adopt any practice specified in the contract by the Secretary as a practice that would tend to defeat the purposes of the contract, and

(5) such additional provisions as the Secretary determines are desirable and are included in the contract to effectuate the purposes of the program or to facilitate the practical administration thereof.

(b) PLAN FOR LAND CONVERSION.—The plan, as described in subsection (a)(1), for converting erosion-prone cropland normally devoted to the production of agricultural commodities on a farm or ranch into a less-intensive use shall set forth the conservation measures and practices to be installed by the owner or operator during the agreement period and the commerical use, if any, to be made of the land during such period and may provide for the permanent retirement of cropland base and allotment history for such land.

SEC. 332. RESPONSIBILITIES OF THE SECRETARY.

In return for such agreement by the owner or operator, the Secretary shall agree to (1) provide technical assistance, (2) share the cost of carrying out the conservation measures and practices set forth in the contract for which the Secretary determines that cost sharing is appropriate and in the public interest, and (3) pay an annual land rental fee, for a period not in excess of the duration of the contract, on those acres of erosion-prone cropland that are placed in a conservation use and for any cropland base and allotment history that the owner or operator agrees to retire permanently.

SEC. 333. COST-SHARING.

The Secretary shall base the amount of cost sharing for conservation measures and practices under this subtitle on that part of the total cost thereof that the Secretary determines is necessary and appropriate to effectuate the installation and maintenance of the conservation plantings and practices for the normally expected life of such a planting or practice.

SEC. 334. LAND RENTAL.

The Secretary shall determine on the basis of bids received from owners and operators the amount of land rental to be paid for converting erosion-prone cropland to less intensive uses and for any cropland base or allotment history that the owner or operator agrees to retire permanently. In awarding contracts the Secretary shall give priority to those bids that will result in the lowest cost to the Government when calculated on the basis of all relevant factors, including the following—

(1) tons of soil saved on the diverted land, as calculated by the difference between the estimated soil loss on the precontract cropping system employed by

the owner or operator and the system that will be installed as a result of the contract,

(2) the acres per year of erosion-prone cropland diverted,

(3) the units of agricultural commodity that would be diverted from production under the terms of the contract,

(4) the number of acres of cropland base and allotment history that the owner or operator agree to retire permanently as a condition of the contract,

(5) the value of the cost sharing to be provided for installation of conservation measures and practices, and

(6) in the case of land located over an aquifer, preventing or minimizing any long-term reduction in the elevation of the water table.

SEC. 335. PAYMENTS.

(a) FORM AND MANNER OF PAYMENT.—Notwithstanding any other provision of law, payments under this subtitle shall be made in cash or in commodities in such amount and on such time schedule as agreed upon and specified in the contract. Such payments may be made in advance of determination of performance.

(b) SUCCESSORS IN INTEREST.—If a producer who is entitled to any such payment or compensation dies, becomes incompetent, or disappears before receiving such payment or compensation, or is succeeded by another who renders or completes the required performance, the Secretary shall make or provide such payment or compensation, in accordance with regulations and without regard to any other provisions of law, in such manner as the Secretary determines to be fair and reasonable in light of all of the circumstances.

(c) LIMITATION ON AUTHORITY OF SECRETARY.—In carrying out the conservation reserve program, the Secretary may not enter into contracts with producers that would require payments to producers under this subtitle in excess of $50,000,000 for contracts entered into during the fiscal year ending September 30, 1986, in excess of $75,000,000 for contracts entered into during the fiscal year ending September 30, 1987, and in excess of $100,000,000 for contracts entered into during the fiscal year ending September 30, 1988. The Secretary may enter into contracts in any fiscal year that require payments to producers only to such extent or in such amounts as provided in appropriation Acts.

SEC. 336. ADMINISTRATIVE PROVISIONS.

(a) SAFEGUARDS.—The Secretary shall provide adequate safeguards to protect the interests of tenants and sharecroppers, including provision for sharing, on a fair and equitable basis, in payments under the program.

(b) TERMINATION OF CONTRACTS.—The Secretary may terminate any contract by mutual agreement with the owner or operator if the Secretary determines that such termination would be in the public interest, and may agree to such modification or contracts as the Secretary may determine to be desirable to carry out the purposes of this subtitle or facilitate its administration.

(c) REGULATIONS.—Notwithstanding the provisions of subtitle B of this title, the Secretary shall provide by appropriate regulations for preservation of cropland base and allotment history, applicable to acreage diverted from the production of crops under this subtitle, for the purpose of any Federal program under which such history is used as a basis for participation in such program or for an allotment or other limitation in such program, unless the owner or operator agrees under the contract to retire permanently such cropland base and allotment history.

(d) USE OF COMMODITY CREDIT CORPORATION.—In carrying out this subtitle, the Secretary may utilize the facilities, services, authorities, and funds of the Commodity Credit Corporation, except that the Secretary may not use funds of the Corporation to carry out this subtitle unless the Corporation has received funds to cover such expenditures from appropriations made to carry out this subtitle.

SEC. 337. AUTHORIZATION FOR APPROPRIATIONS.

Effective during the period beginning October 1, 1985, and ending September 30, 1988, there are hereby authorized to be appropriated such sums as are necessary for the administration of this subtitle, including such amounts as may be required to make payments to the Commodity Credit Corporation for its costs to be incurred under this subtitle.

Subtitle E—Administrative Provisions

SEC. 340. RULES AND REGULATIONS.

The Secretary shall, within 180 days after the date of enactment of this Act, publish in the Federal Register such regulations as the Secretary determines desirable to implement this title. In carrying out this title, the Secretary shall use the services of local, county, and State committees established under section 8 of the Soil Conservation and Domestic Allotment Act.

SEC. 341. APPEAL PROCEDURES.

The Secretary shall establish, by regulation, an appeal procedure under which a person who is adversely affected by any determination made under this title may seek review of such determination.

SEC. 342. ADDITIONAL AUTHORITY.

The authority provided by this title shall be in addition to and not in place of other authorities available to the Secretary and the Commodity Credit Corporation for carrying out soil and water conservation programs.

TITLE IV—STORAGE OF AGRICULTURAL COMMODITIES

Subtitle A—Storage of Grain Owned or Controlled by Commodity Credit Corporation

SEC. 401. FACILITIES INELIGIBLE FOR STORAGE.

(a) PROHIBITION.—Except as provided in subsection (c), the Secretary of Agriculture shall not permit any grain owned or controlled by the Commodity Credit Corporation to be stored in a non-Federal grain storage facility unless such facility is licensed under the United States Warehouse Act (7 U.S.C. 241 et seq.) or is approved in accordance with subsection (b) by the Secretary for such storage.

(b) APPROVAL OF GRAIN STORAGE FACILITIES.—For purposes of subsection (a), a grain storage facility shall be approved on such terms and conditions as the Secretary may require by rule, except that no such facility may be approved if the person who owns or operates such facility fails to submit a written report to the Secretary, at such intervals as the Secretary may require, which includes the following:

(1) information describing the types of delayed pricing contracts entered into by such person during the period for which such report is submitted and the aggregate quantity of each kind of grain which is the subject of each such type of contracts,

(2) information describing the aggregate value of all contracts of sale of a commodity for future delivery purchased in such period by such person, the aggregate value of all such contracts sold in such period by such person, and the aggregate quantity of each such commodity subject to such contracts, and

(3) a financial statement which includes a balance sheet, a statement of income, a statement of retained earnings, and a statement of changes in the financial position of such person.

(c) EXEMPTION.—If the Secretary determines that adequate grain storage services cannot be secured in an area in facilities approved in accordance with this subtitle and that no reasonable and economical alternative is available for securing such services, then the Secretary may exempt grain storage facilities in such area from the requirements of this subtitle.

SEC. 402. AVAILABILITY OF GRAIN STORAGE FACILITY FINANCIAL INFORMATION TO PRODUCERS.

With respect to each grain storage facility approved under this subtitle, the Secretary shall make available locally to producers detailed financial information relating to past and current operations of such facility, other than financial information the disclosure of which would impair the operating of such facility in a competitive manner.

SEC. 403. DEFINITIONS.

For purposes of this subtitle—

(1) the term "commodity" has the meaning given it in section 2 of the Commodity Exchange Act (7 U.S.C. 2),

(2) the term "contract of sale" has the meaning given it in section 2 of the Commodity Exchange Act (7 U.S.C. 2),

(3) the term "grain" means wheat, corn, grain sorghum, barley, oats, rye, soybeans, flax seed, rice, or dry edible beans,

(4) the term "grain storage facility" means a site or physical structure regularly used to store grain for producers, or to store grain acquired from producers for resale,

(5) the term "producer" means an entity which engages in the production or raising of grain, and

(6) the term "Secretary" means the Secretary of Agriculture.

SEC. 404. IMPLEMENTATION THROUGH COMMODITY CREDIT CORPORATION.

The Secretary shall carry out this subtitle through the Commodity Credit Corporation.

Subtitle B—Federal Crop Insurance

SEC. 410. COVERAGE OF CERTAIN LOSSES CAUSED BY INSOLVENT APPROVED STORAGE FACILITIES.

Section 508(a) of the Federal Crop Insurance Act (7 U.S.C. 1508(a)) is amended—

(1) in the first sentence by inserting "the insolvency of the owner or operator of an approved storage facility at which wheat, feed grains, soybeans, rice, or upland cotton is stored," after "plant disease,",

(2) in the second sentence by inserting "and except as provided in the foregoing sentence" after "tobacco", and

(3) by inserting after the first sentence the following: "For purposes of this section, the term 'approved storage facility' means a warehouse licensed under the United States Warehouse Act or a storage facility approved by the Commodity Credit Corporation for the storage of a commodity securing a loan made by the Secretary of Agriculture under the Agricultural Act of 1949, and insolvency shall be conclusively presumed to exist upon entry of an order for relief in a case under title 11, United States Code, in which such owner or operator is a debtor.".

SEC. 411. PAYMENT OF CROP INSURANCE PREMIUMS.

Section 508(b)(3) of the Federal Crop Insurance Act (7 U.S.C. 1508(a)) is amended—

(1) by striking out "For" and inserting in lieu thereof "(A) Except as provided in subparagraph (B) and for", and

(2) by adding at the end thereof the following new subparagraph:

"(B) Twenty per centum of each producer's premium, as calculated by the Corporation under the Corporation's policy of insurance applicable to losses incurred as a result of the insolvency of the owner or operator of an approved storage facility shall be paid by the Corporation.".

SEC. 412. PROMOTION OF AND REPORT ON PROGRAM.

(a) Promotion of Insurance Program.—If the Federal Crop Insurance Corporation insures producers against losses of commodities incurred as a result of the insolvency of the owner or operator of an approved storage facility, then such Corporation shall—

(1) promote the purchase of such insurance by producers, and

(2) promote the issuance of similar insurance by private insurers.

(b) Report.—Annually during the 5-year period beginning on the date of the enactment of this Act, the Federal Crop Insurance Corporation shall submit to the Committee on Agriculture of the House of Representatives and to the Committee on Agriculture, Nutrition, and Forestry of the Senate a report describing in detail—

(1) the Corporation's efforts to develop, issue, and promote the purchase of insurance of the type described in subsection (a),

(2) the characteristics and extent of coverage of any such insurance issued by the Corporation,

(3) the number of producers who purchase such insurance from the Corporation and private insurers, and the number and aggregate value of claims paid for losses so insured,

(4) the number and aggregate value of insurable losses of the type described in subsection (a) for which producers did not purchase such insurance,

(5) if the Corporation does not issue such insurance, the reasons in support of the Corporation's refusal to issue such insurance, and

(6) the Corporation's efforts to encourage private insurers to make available generally insurance of the type described in subsection (a).

(c) DEFINITION.—For purposes of this section, the term "approved storage facility" has the meaning given it in section 508(a) of the Federal Crop Insurance Act (7 U.S.C. 1508(a)), as amended by section 410 of this Act.

TITLE V—LONG-TERM AGRICULTURAL POLICY COMMISSION

SEC. 501. ESTABLISHMENT OF COMMISSION.

(a) There is established a National Commission on Long-Term Agricultural Policy to conduct a study of the structure, procedures, and methods of formulating and adminstering agriculture-related policies, programs, and practices of the United States.

(b) In addition to the ex officio congressional Members specified in subsection (c) of this section, the Commission shall be composed of fifteen members appointed or designated by the President and selected as follows:

(1) The President shall select three members from among the officers or employees of the executive branch who shall serve in an ex officio capacity without voting rights; and

(2) The President pro tempore of the Senate and the Speaker of the House of Representatives shall each select six members from among private citizens of the United States to represent individuals and industries directly affected by agriculture-related polices, including but not limited to, the following:

(A) producers of major agricultural commodities in the United States;

(B) processors or refiners of United States agricultural commodities;

(C) exporters, transporters, or shippers of United States agricultural commodities;

(D) suppliers of production equipment or materials to United States farmers;

(E) providers of financing or credit for agricultural purposes;

(F) consumers of United States agricultural commodities.

(c) The chairman and ranking minority members of the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry shall serve as ex officio members of the Commission and shall have the same voting rights as the members of the Commission selected and appointed under the provisions of subsection (b)(2) of this section. The chairman and ranking minority members may designate other members of the respective committees to serve in their stead as members of the Commission.

(d) A vacancy in the Commission shall be filled in the manner in which the original appointment was made.

(e) The Commission shall elect a chairman from among the members of the Commission who are selected and appointed under the provisions of subsection (b)(2) of this section.

(f) The Commission shall meet at the call of the chairman or a majority of the Commission.

SEC. 502. CONDUCT OF STUDY.

The Commission shall study the structure, procedures, and methods of formulating and administering agriculture-related policies, programs, and practices of the United States. In conducting the study, the Commission shall consider, among other things, the following:

(1) the effectiveness of existing agriculture programs in improving farm income and the manner in which they can be improved to retain a family-farm system of production agriculture;

(2) the effect of legislative and administrative changes in agriculture policy on farmers planning and long term profitability;

(3) the effect of the present system and structure of making and implementing agriculture policy on farmers;

(4) national and international economic trends which effect American agricultural production and the best way the United States can adjust its policies, programs, and practices to meet changing economic conditions;

(5) potential areas of conflict and compatibility between the structure of making agricultural policy and long term stability in policy and practices;

(6) changing demographic trends and the way they affect agriculture and agricultural policy consistency; and

(7) the role of State and local governments in future agricultural policy.

SEC. 503. RECOMMENDATIONS AND REPORTS.

On the basis of its study, the Commission shall make findings and develop recommendations for consideration by the President and the Congress within eighteen months of the enactment of this section.

SEC. 504. ADMINISTRATION.

(a) The heads of executive agencies, the General Accounting Office, the International Trade Commission, and the Congressional Budget Office shall, to the extent permitted by law, provide the Commission such information as it may require in carrying out its duties and functions.

(b) Members of the Commission shall serve without any additional compensation for work on the Commission. However, members appointed from among private citizens of the United States may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons serving intermittently in the government service under sections 5701 through 5707 of title 5, United States Code.

(c) To the extent there are sufficient funds available to the Commission in advance under section 1223 of this subtitle, and subject to such rules as may be adopted by the Commission, the chairman, without regard to the provisions of title 5, United States Code, governing appointments in the competitive service and without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates, shall have the power to—

(1) appoint and fix the compensation of a director; and

"(2) appoint and fix the compensation of such additional staff personnel as the Commission determines necessary to carry out its duties and functions.

(d) Upon request of the Commission, the Secretary of Agriculture shall furnish the Commission with such personnel and support services as are necessary to assist the Commission in carrying out its duties and functions.

(e) Upon request of the Commission, the heads of other Executive agencies and the General Accounting Office are each authorized to furnish the Commission with such personnel and support services as the head of the agency or office and the chairman of the Commission agree are necessary to assist the Commission in carrying out its duties and functions.

(f) The Commission shall not be required to pay or reimburse any agency or office for personnel and support services provided under this section.

(g) In accordance with section 12 of the Federal Advisory Committee Act, the Secretary of Agriculture shall maintain such financial records as will fully disclose the disposition of any funds that may be at the disposal of the Commission and the nature and extent of its activities, and the Comptroller General of the United States, or any of the Comptroller General's authorized representatives, shall have access to such records for the purpose of audit and examination.

(h) The Commission shall be exempt from section 7(d), section 10(e), section 10(f), and section 14 of the Federal Advisory Committee Act.

(i) The Commission shall be exempt from the requirements of section 4301 through 4308 of title 5, United States Code.

SEC. 505. PUBLIC SUPPORT

(a) Notwithstanding the provisions of section 1342 of title 31, United States Code, the Secretary of Agriculture may receive, from persons, corporations, foundations, and all other groups and entities within the United States, contributions of money and services to assist the Commission in carrying out its duties and functions. Any money contributed under this section shall be available to the Commission for payment of salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle.

(b) The Secretary of Agriculture shall keep, and shall make available for public inspection during normal business hours, records that fully disclose a complete list of every person, group, and entity making a contribution under this section, the address of the contributor, the amount and type of each such contribution, and the date the contribution was made.

(c) Any amount of money available to the Commission under this section that remains unobligated upon termination of the Commission shall be deposited in the Treasury as miscellaneous receipts.

SEC. 506. TERMINATION.

The Commission shall terminate sixty days after the transmission of its final report to the President and Congress.

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Mr. DASCHLE. Without any additional comment, unless the gentleman from Missouri has anything that he would like to add, I would like to call up the first panel:

Mr. Henry Neshem of Berthold, N.D. He is the president of the National Association of Wheat Growers. John Schnittker, the president of Schnittker Associates; Mr. Bob Gray, of Farmland Trust; and Ken Cook, the consultant for agricultural policy.

If those four witnesses could come forward, we will begin.

Gentlemen, we are pleased that you are with us this morning. We appreciate your taking the time to join us and provide us with the benefit of your thinking on these issues.

We will proceed, and I will call on Mr. Henry Neshem first to begin the testimony.

Mr. Neshem.

STATEMENT OF HENRY NESHEM, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, ACCOMPANIED BY CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT

Mr. NESHEM. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, the National Association of Wheat Growers appreciates this opportunity to present its views on legislation to replace the Agriculture and Food Act of 1981.

I am Henry Neshem, a wheat farmer from Berthold, N.D., and president of the National Association of Wheat Growers. Accompanying me today is Carl Schwensen, the association's executive vice president.

U.S. farmers are currently experiencing the most prolonged economic decline since the thirties. Land values continue to plummet, reducing net worth and the farmers' ability to finance their operations in the face of declining prices and shrinking markets. The wheat sector of the farm economy has become very export-dependent, but exports have declined in both value and volume since 1981, and prices at the farm gate are the lowest in 6 years.

Farmers are being told that the solution to these problems lies in more market-oriented farm programs, a term that has not become a code word for lower farm prices.

What we need more than anything are profit-oriented programs and actions which will open up new training opportunities instead of sealing them off with damaging economic and foreign policies.

Mr. Chairman we are convinced that strong commodity programs are essential to maintaining our agricultural sector, and we believe further that this approach will prove to be far more cost effective than the alternative of dealing with bankrupt farms, banks, rural businesses, equipment manufacturers, and others in supply industries, not to mention the reduction in jobs and the dislocation of resources that would be part of such a policy course.

Simply stated, we believe that a strong wheat program will result in the avoidance of greater economic costs on the part of the Government.

Let me outline the major provisions of the Farm Program that the members of the National Association of Wheat Growers adopted in January:

Target prices should be maintained at the current $4.38 per bushel or increased at the Secretary's discretion.

Continuation of a nonrecourse national loan at $3.30 per bushel, but with a variable repayment rate based upon the average State price received by farmers for their crop.

Require a maximum 20 percent set-aside if carryover exceeds 700 million bushels in any 1 year; additional acreage diversion would be paid for.

Implement a long-term conservation reserve.

Establish farm bases on the amount of land normally planted or considered planted.

Provide Government assistance during periods of declining world market share.

Importantly, this proposal would maintain farm income by continuing the Target Price Program at a statutory minimum of $4.38 per bushel. The Marketing Loan Program will not adversely affect farm income, but it will increase U.S. competitiveness. This program allows market forces to dictate the price of grain. Since fewer bushels will be forfeited to the Government or placed in reserves, program costs will be reduced. U.S. farm products will become more competitive in the international market, and the loan will not act as an umbrella for world market prices.

Under the program, a farmer would have the option to repay his loan at the average market price in his State which could be quoted twice a month. An example may help in understanding this feature. Say that after a farmer obtained a $3.30 per bushel loan, the State average price later dropped to $3.20 per bushel. He could then redeem the loan at $3.20 and market his wheat, and his total income would not have changed. Or, a grower could elect to settle his loan for $3.20 and hold his grain for a better marketing opportunity. In each example, the bushel would move into the market and not into the hands of the Commodity Credit Corporation, where the high costs of loan forfeiture, lost interest, and storage would be incurred.

This loan program unties our price support from the world market. It means that the price floor which competing exporting nations have used for market protection essentially will be removed.

Mr. Chairman, we are keenly aware that the budget resolution now pending in Congress will have a major impact on the design and content of new farm legislation. Our analysis of the Senate-White House deficit reduction agreement indicates that the Reagan administration aims to reduce the deficit by about the same amount over the next 3 years as the Senate Budget Committee has proposed. Although the two plans have about the same bottom line, they differ substantially in their treatment of agricultural outlays.

The White House proposes to increase defense spending $17.7 billion over the 3-year level set last month by the Senate Budget Committee, while decreasing funding for agriculture by $13.2 billion during the 1986-88 fiscal years. In other words, nearly 75 percent of the administration's planned defense increase will come as a result of decreases in farm spending.

Mr. DASCHLE. Mr. Neshem, if you could summarize the remainder of your statement, we have it for the record, I want to assure you.

Mr. NESHEM. OK.

We are aware that the Agriculture Secretary has triggered the mechanisms of underlying statutes which require a referendum by August 1 on marketing quotas. We have no objection to the development of standby legislation which could be enacted in the event negotiations on a new farm bill break down.

I want to thank you for the opportunity of expressing our views.

Thank you.

[The prepared statement of Mr. Neshem appears at the conclusion of the hearing.]

Mr. DASCHLE. I want to thank you. It is an excellent statement. I appreciate that.

We have some questions, I am sure. If you will stay at the table, we will call on Mr. Schnittker now for his testimony.

STATEMENT OF JOHN A. SCHNITTKER, SCHNITTKER ASSOCIATES

Mr. SCHNITTKER. Thank you, Mr. Chairman.

Wheat, feed grains, and soybeans, which are under the purview of this subcommittee, are the key commodities in U.S. agriculture. They are grown on most of our acreage. They are our principal export commodities, and they exert an important influence on the dairy, livestock, and poultry sectors.

I wish to comment on only one bill directly and a number of issues that are before you. This committee, I believe, should report, and Congress should pass, H.R. 1614, the Congressman Foley bill to stop the wasteful and confusing 1986 Wheat Program procedures recently announced by USDA.

H.R. 1614, I think, should be amended to make cancellation of the announced marketing quotas and related procedures mandatory instead of optional. In fact, I believe the bill could be used as a vehicle to terminate the so-called Permanent Wheat Program. Farmers and the food trade should not be faced periodically with the threat that this obsolete program would go into effect for the first time some 23 to 24 years after it was first enacted.

Second, on the U.S. competitive position, I believe it is essential that loan rates for 1986 crops be cut by about 10 percent to give our growers a better chance in export markets.

The so-called Findley amendment from the 1981 act is a good vehicle for this, except that it is optional. Secretary Block has already passed up two opportunities during his tenure under this provision to make our products more competitive in world markets.

I think it would be better if the Congress would adopt in principle a version of the so-called soybean formula setting loans at 75 to 80 percent of recent average farm prices, but also providing yearly minimum loan levels for several years, about as I have listed in my testimony.

On the question of target price payments and costs, Congress will, of course, need to set target price levels this summer that are consistent with the budget for 1986. Then I suspect you will have to revise those from year to year as budget policy changes over the next few years.

I have suggested in my written testimony some target price levels that might fit within the current Senate budget resolution in case that is roughly what the two Houses adopt.

On the question of acreage reduction, the administration has been prone to not use acreage reduction and more recently to use it but to run it badly. I believe this program feature of ARP should be retained despite its increasing ineffectiveness. I think that set-asides of 20, 15, and 10 percent for the next 3 years would be about consistent with the level of payments to farmers that will fit within the probable budget resolution.

Finally, the steps that I suggest will certainly not help the 43,000 farmers who are already insolvent or the 50,000 farmers with extreme financial problems, according to the most recent USDA study. Even higher supports would do them little good. These farmers require tailormade assistance, if any help at all can be devised by the Congress

The half million commercial family farmers not yet in financial trouble may see the value of their assets decline further in the next few years, almost irrespective of policy, as the past speculative value of land is squeezed out of the prices. This will not be caused by the farm bill, nor can it, in my judgment, be avoided by any feasible policy actions, but is simply a circumstance that we are in, and it is going to take a long time to get out of.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Schnittker appears at the conclusion of the hearing.]

Mr. **Daschle**. Thank you, Mr. Schnittker.

At this point in the record we will submit the comments of Mr. Roberts of Kansas.

[The prepared statement of Mr. Roberts follows:]

STATEMENT OF

THE HONORABLE PAT ROBERTS

Mr. Chairman. We are faced with the difficult task this year of writing a Farm Bill that will accomplish several goals. There is little doubt that our price supports must be adjusted so that the market place sends producer signals on production and so that we can compete in the world export trade. However, that goal would seem to be in direct conflict with the usual aims of farm policy; ie. to keep farmers on the farm. With the present budget limitation, the task of writing a farm bill that will restore lost export market share while protecting farm income will not be easy.

One of the cornerstones of any farm bill that is written should be a reform of the current acreage base system used by the USDA as a means of controlling farmers access to farm program benefits. A major problem since the inception of farm programs has been the fair and equitable calculation of acreage bases. Unfortunately, every farm program and acreage reduction/supply management program we have had in the last 20 years has not recognized the fact that summer-fallow producers have been idling 50 percent of their land. For new members of the committee, summer-fallow is the practice of idling ground so that it collects moisture, with the residue from last years crop acting as a conservation cover.

The current system being used by USDA to calculate acreage bases has encouraged producers to move away from summer-fallow practices and go to continuous cropping. Often the summer-fallow farmers USDA program acreage base will be just one-half of his total tillable acres while the producer who double crops, will often build a USDA program acreage base that is larger than the total tillable acres on the farm. In short, the current programs have rewarded the farmer that double-crops, while penalizing the summer-fallow producer.

As we draft new farm legislation, I urge this subcommittee to give serious consideration to reforming the current system of establishing acreage bases. It makes little sense to reward the double-cropper who not using sound conservation practices, while penalizing the summer-fallow producer who is following sound conservation practices.

There are those, who say that we should get tough and tighten up the summer-fallow rules. However, if we are talking about effective wheat supply management programs, it makes little sense to force the producers in the major wheat growing areas out of the farm program by imposing acreage bases on them that are unfair.

Mr. DASCHLE. Mr. Gray.

STATEMENT OF ROBERT J. GRAY, DIRECTOR, POLICY DEVELOPMENT, AMERICAN FARMLAND TRUST

Mr. GRAY. Thank you very much, Mr. Chairman and members of the subcommittee.

Mr. Chairman, I would appreciate it if my total statement was included in the record.

Mr. DASCHLE. Without objection, it will be.

Mr. GRAY. Mr. Chairman, members of the subcommittee, I am Bob Gray. I am director of policy development for the American Farmland Trust. We are basically concerned about conservation resource issues in agriculture today.

However, we clearly recognize the problems that farmers are facing financially, and I would like to just briefly discuss with you this morning the program that we have worked on for a long period of time which we think will do three things:

It will help farmers at a time when they are very financially strapped.

Two, it will substantially reduce erosion, more than any other program has ever done in the 50 years of the conservation programs that have been around.

Three, it will also help to cut costs on our commodity programs, which I know that Congress is concerned about the deficit and you are wrestling with the problem of how to put together a program that will be fair and equitable to the farmers at this time but yet keep costs in line.

What I am talking about is the ideas of the conservation reserve, which would take as much as 30 million acres of highly erodible cropland out of production. It would put it back into grass or trees for a period of 10 years, and at the end of that time that land would be removed from the cropland base.

We have somewhere in the range of around 45 to 50 million acres of land that have been brought into production, a lot of it in the last 10 to 12 years, that is creating about half of the erosion problem that we have.

The conservation reserve works well from the standpoint of a major policy reform in the commodity programs. What I would like to touch upon this morning is really three points:

One is that, if this subcommittee and the full committee decide that a conservation reserve is and should be included as part of the farm bill, the 1985 farm bill, it is important that language for a multiyear conservation reserve be included in the feed grains, the wheat and feed grains titles—in other words, to tie it, to integrate it into the conservation resource title of the farm bill.

I would also recommend that the conservation reserve be financed through the Commodity Credit Corporation borrowing authority because it is a much simpler process and it will not involve the more difficult process of going through the regular budget authority that we have. I will not get into details on that, but I do explain that in my testimony.

The third thing that I would like to add is that, if you could just quickly look at pages 13 and 14 in my testimony, we have gone to the work of looking at what kind of cost savings that you would have in putting a conservation reserve into the farm bill. We looked at a 30-million-acre reserve and we drew out three scenarios.

Scenario 1, just breaking this down proportionately, we would be looking at maybe possibly 17 million acres of wheat, 10.5 million acres of feed grains, and maybe about 2 million acres of cotton into a conservation reserve.

These three scenarios included, one, freezing target prices at current levels and taking most of this 30 million acres out in the first year. That might not be as realistic from the standpoint of the capability of the Soil Conservation Service and ASCS to do that in the first year, but, nevertheless, we clearly get three kinds of savings in taking this land out. One, of course, we get a reduction in deficiency payments because there is going to be some price enhancement involved with taking that kind of land out of production. Second, we save in terms of storage costs for farmer-held reserve. So that scenario, playing it out, taking out the 30 million acres the first year, over a period of 5 years shows a savings of about $6.4 billion.

The second scenario that we have, that I have in my testimony, removes the land over a 3-year period, 10 million acres per year, and that shows price enhancement, but, of course, it takes longer to do that. Therefore, the savings, the offsetting savings in that scenario show about $4.1 billion in a period of 5 years.

The third scenario that we ran reduces target prices by 5 percent each year over a period of 5 years. Of course, that also would take the land out 10 million acres a year over a 3-year period. That shows a price savings of $13.6 billion over the course of 5 years, about $4 to $4.5 billion of that being associated with the cost savings with the conservation reserve.

We think that this program is very competitive in terms of what it can do in the mix of other provisions in the 1985 farm bill. We are pleased to have the opportunity to testify this morning and will be glad to work in any detail with your staff to make sure that a conservation reserve gets included in the 1985 farm bill.

Thank you very much.

[The prepared statement of Mr. Gray appears at the conclusion of the hearing.]

Mr. DASCHLE. Thank you, Mr. Gray, for an excellent statement. We appreciate your thoroughness in the testimony you have presented for the record, and it will be inserted in its entirety.

Mr. Cook.

STATEMENT OF KENNETH A. COOK, CONSULTANT, AGRICULTURAL POLICY

Mr. COOK. Thank you, Mr. Daschle.

My name is Ken Cook. I am a writer and an analyst in conservation and agricultural policy. This year I am working with a number of groups here in Washington and around the country on conservation policy ideas that are specifically tailored to the 1985 farm bill.

When I say "conservation policies," what I really mean is that throughout the community of conservationists in the country there is, more or less, a unanimous agreement now that unless we are able to use the tremendous leverage of our commodity programs and other USDA programs, we are never going to be able to solve the conservation problems in this country.

It just so happens that a number of the ideas that have been proposed, some of which have been mentioned already today, enable us to do both—to help support prices and income and also help us conserve topsoil.

I would like to dwell on three main points, Mr. Daschle, this morning.

First of all, the point that was made by Mr. Gray, that we need to consider long-term solutions to some of our excess production problems and our soil erosion problems. The way to do that, we think, is through the conservation reserve.

If we were able to reduce our wheat acreage by 6 percent now, we could cut nationwide erosion on wheat acreage by almost 31 percent. If we were able to reduce the acreage planted to corn by just 2 percent, the most erodible acreage, we would be able to reduce corn erosion problems by 22 percent. For soybeans, a 3-percent reduction in acreage would result in an almost 28 percent reduction in total erosion on soybean land.

In my mind, that adds up to very strong political arguments, very practical farm level arguments, and very important national policy arguments in favor of a conservation reserve.

The same logic applies to a very strong and workable sodbuster policy by which we would attempt to discourage the introduction of yet more highly erodible land and wetlands into the crop production base that we now have, which is already overinflated and already has conservation problems well beyond the capabilities of our existing agencies.

If I might focus a little bit on some of the sodbuster provisions that a number of groups have been working on around the country and suggest, Mr. Daschle, that we would be more than happy to follow up with any questions that the subcommittee may have—but, again, the sodbuster provisions really should be—it should be made clear that they should be made a part of every title in the farm bill.

Basically, we feel that highly erodible land that has not been cropped in the last 5 years should be exempt from the sodbuster provisions. Any land that has not been cultivated in that time should have sodbuster sanctions apply if it is highly erodible.

Furthermore, we believe that if we are thinking seriously about trying to put some brake on this bloating of our basic acreages, that a fair and equitable and manageable way to do it is to apply the sodbuster policy to all land, whether or not it has been cultivated in the last 5 years, phase that policy in by 1990. That, in conjunction with the conservation reserve, would mean that farmers would have the option of entering the conservation reserve, retiring that highly erodible land on their own, or forfeiting their benefits for USDA commodity programs by 1990. That is a very difficult decision, and I think really so much emphasis is placed on target prices and loan rates that we forget that we have some very ineffective programs for production control in this country. If we begin to focus on them, I think we will solve a number of the problems that occur later because of various target and loan price levels.

The definition of highly erodible land—I go to some length in my testimony to point out the importance of having a definition that is technically defensible, that is workable in the field, and that will really fit our most serious erosion problems, according to our best information. I think that is not the definition that is offered by the Department of Agriculture now.

Finally, we feel that wetlands should be included in a sodbuster bill. If highly erodible lands should not be added to the base, we see no reason to encourage the introduction of wetlands in the base acreages.

We feel also that it is very important to have a good system for verification and for handling any farmer appeals or needs for exemptions that may arise in enforcing the sodbuster policy.

Thank you, Mr. Daschle.

[The prepared statement of Mr. Cook appears at the conclusion of the hearing.]

Mr. DASCHLE. Thank you, Mr. Cook.

Thank you to each panel member.

We will begin with questions. At this time I will call on Mr. Emerson.

Mr. EMERSON. No questions.

Mr. DASCHLE. Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman.

I want to thank the panel for excellent testimony.

I have a couple of questions, Mr. Neshem.

First of all, have you looked—and I could be having some erroneous assumptions, so you might correct me—in paying back a loan based on the average State price received by farmers, is there any need to be concerned about a transportation differential going State by State as opposed to, say, the national world clearing market price that is received at the gate?

Mr. NESHEM. In the way we looked at it, we thought it would probably be more equitable because, coming from North Dakota, our freight rates are much different than other areas of the country. As you know being from Minnesota, we do pay a huge freight rate, and our prices are probably lower there than they would be in Oklahoma. We think that having it regionalized or by State, it might be more fairly administered.

Mr. STANGELAND. That is why I am wondering if it would not be more fair to just go by the national average price for all to eliminate that problem of transportation differential, but it may not amount to that much in the overall total.

Mr. NESHEM. We would be subject to change. It is nothing that we cannot handle, but we just thought——

Mr. STANGELAND. Then what is your suggestion to get us to a carryover of 700 million bushels? I do not know if you are aware or recall that last October, when the Secretary announced the wheat program for 1985, he announced that there would be a 20-percent set-aside, a 10-percent paid diversion, about 69, as I recall, percent participation, a year ending stock in 1984 of 1,300,000 bushels, and a year ending stock after usage in 1985 of 1,600,000 bushels, a gain of 300 million bushels with that amount of set-aside.

How do we get that carryover at the end of this year from 1.6 down to the 700 million to where we can start to see some effect on set-asides?

Mr. NESHEM. Well, we wheat growers feel that we have not even attempted to reduce that stock because of cargo preferences and all of the many other implications that have been developing. We think now with our dollar—I am going to call it high, not strong. It is kind of like blood pressure, it is dangerous if you do not treat it.

I believe that we should be looking at—and it would save the Department money—if a country would buy some grain, maybe we could add on enough extra bushels to make our product in line if that is what it needs to move this stuff. It would probably be—we are sure it would be much cheaper to add bushels to a cargo than to continue to sit on it in CCC stocks or storage out in the country somewhere.

Mr. STANGELAND. So you support a bonus bushel type of program——

Mr. NESHEM. Yes.

Mr. STANGELAND. Fr export trade? Very good.

Mr. NESHEM. We have to move the product.

Mr. STANGELAND. Mr. Schnittker, looking at your proposals, are the figures on page 2 your recommendations or are they——

Mr. SCHNITTKER. Those are my guesses, Mr. Stangeland, of what (a) would make the United States adequately competitive by lowering loan rates and (b), on the question of target price payments, what would probably fit within the budget resolution.

Mr. STANGELAND. I am just wondering, Is there any way that we could come to some kind of an assurance that were we to go ratchet down, say, the target price from $4.38 to $3.30 that the price in the marketplace would compensate? If you take the present system and just transpose it on down, today a wheat farmer can expect to receive $4.38 for his wheat up to $50,000 worth. If there is no change, by 1988 he is going to get $3.30, which is going to be a $1.08-per-bushel reduction in his gross income with basically the same input costs.

What kind of an assurance could you give us or do you have any way of telling us what this kind of a program might do in the marketplace?

Mr. SCHNITTKER. There is no assurance unless we can get our prices competitive and rapidly expand exports. I certainly do not have any hope that exports will expand rapidly enough that 4 years down the road prices would compensate fully for the reduced target price payments.

Mr. STANGELAND. You know, that is the concern that all of us do have. I think what you are recommending is to move to a market-oriented program. I think all of us have that as a goal, except in the present economic conditions we have and the present problems that we have with the whole economy as it affects agriculture. The high interest rates, the value of the dollar, whatever, make it difficult for us to find out how to get from here to there without bankrupting a lot of our farmers.

Mr. **Schnittker**. I would emphasize that these recommendations, if they are that, are designed to fit with what my judgment presently is as to what the budget policy will probably require.

Mr. **Stangeland**. Thank you very much.

Mr. **Daschle**. Thank you, Mr. Stangeland.

Mr. Bruce.

Mr. **Bruce**. I have no questions at this time.

Mr. **Daschle**. Mr. Schuette.

Mr. **Schuette**. Thank you, Mr. Chairman.

Mr. Neshem, if I may, I appreciate your testimony, first of all, and thank you for being here.

My question concerns the cost involved in a marketing loan concept, which I appreciate your setting forth in your prepared comments.

What are your thoughts and analyses on the dollars and cents associated with the marketing loan concept, given your comments of leaving target prices at $4.38?

Mr. **Neshem**. Probably I should have Carl Schwensen answer that.

I do know that the concept that we have devised there will be cheaper for the administration to handle than it would be under the current program.

Mr. **Schuette**. I will be happy to talk to Carl. Carl, we can do that now or we can do that later, whatever is easier for you, sir.

Mr. **Schwensen**. Thank you, Congressman.

As Mr. Neshem indicated, our analysis indicates to us that at the very worst the cost of the program under the marketing loan would be a wash and that in fact there might be some savings because——

Mr. **Schuette**. Versus what we have now?

Mr. **Schwensen**. That is correct.

Mr. **Schuette**. Thank you, Carl.

Mr. Schnittker, you did not specifically comment on a marketing loan concept. May I have a brief analysis on your viewpoints, please?

Mr. **Schnittker**. Yes. I did not comment on the marketing loan concept, even though it is a very interesting and a novel idea. It may fit at other times, but in my judgment the market loan concept could apply to most of the commodities which now have target prices. It would probably increase the budget exposure by $3 to $5 billion a year in the circumstances in which we find ourselves, and is probably inappropriate for the present circumstances, unless of course we can spend $3 to $5 billion more, in which case it would be one way to make our product more competitive.

Mr. **Schuette**. Thank you, sir.

Thank you, gentlemen.

Thank you, Mr. Daschle.

Mr. **Daschle**. Thank you, Mr. Schuette.

Mr. Smith.

Mr. **Smith**. No questions.

Mr. **Daschle**. Mr. Marlenee.

Mr. **Marlenee**. I would be happy to yield to my colleague.

Mr. **Stangeland**. I thank the gentleman for yielding.

I have one other question that comes to mind, and I am sure you must have some concern, as all of us do.

We all recognize, I think, that we need some acreage reduction to get our production more in line with demand. However, is there not also a need to be concerned that, with a substantial acreage reduction program, we may just end up losing a larger share of the world volume of wheat and feed grains?

Mr. **Schnittker**. I do not believe that is the case, Congressman, down to a point. I think it is entirely wrong, as many argue in this country, that if we cut acreage we lose markets. Only if we cut acreage so much that we push our stocks very low and our prices very high do we lose markets. However, at the moment we are in the business of cutting acreage and expanding exports to get the carryover down from 1.6 billion to 1.4 billion to 1.2 billion. We certainly are not going to lose any markets in those circumstances by cutting acreage.

Mr. **Stangeland**. Thank you.

Mr. **Daschle**. Mr. Marlenee.

Mr. **Marlenee**. If I might, I do have a broad-based question. A number of us on this subcommittee have been looking at various proposals, different policies that we might adopt in a coming farm bill.

I apologize for not being here earlier to hear your responses to questions which may have been asked along this line.

One of those is bonus commodities to increase exports. Another one is the export certificate. I wish to pursue just very briefly those two subjects.

Do any of you have any objection, or does your organization, to a tool, a marketing tool such as an export certificate that we could give to the trade negotiators or that the Secretary of Agriculture could use, an export certificate that would go to the producer that complied with the programs—and there might be acreage reduction programs tied to this?

We would leave in place a basic structure of income protection, use that certificate on the portion of the crop available for export, that certificate would go to the producer and then on to the exporter, and when he shows proof of sale, he redeems the certificate with USDA either by bonus commodities or by direct payment from the Federal Government.

What that essentially does is to allow the exporter to adjust his price that he can offer that grain for on the world market, adjust it downward by the value or the amount of the certificate. It makes him competitive. It helps us deal with the value of the dollar if it stays high, and it could fluctuate as the value of the dollar fluctuates. It helps us deal with export subsidies.

Yes, sir.

Mr. **Neshem**. I do not see that we have a problem. I think it is most important that we devise a method that we get back into the market. I do not think that we should show the rest of the world that we are going to just chop acres off, because all that tells them is that we are going to produce more acres somewhere else, but I think that we should be realistic and not continue to expand our acres of production.

We just have to get out there in the real world and sell grain. If this is a way that we can do it and it is cost-effective, we would have no problem.

Mr. MARLENEE. OK. Mr. Neshem, I am involved in a ranch operation, a farm operation up along the Canadian border about 50 miles from the North Dakota line, so I am intimately familiar with your area and have gone through there a number of times. My uncle was one of the founders of Westland Oil Co., which you are probably familiar with.

Mr. NESHEM. Yes.

Mr. MARLENEE. And nobody else in the Nation knows about. [Laughter.]

Welcome to the committee.

Mr. NESHEM. I knew the Kauflins well.

Mr. MARLENEE. Did you know the Kauflins?

Mr. NESHEM. Yes, the younger ones.

Mr. MARLENEE. Mr. Gray.

Mr. GRAY. We are not that familiar with that particular approach, Mr. Marlenee. However, we certainly support an idea of that nature if it is going to help increase exports and be able to make us more competitive internationally.

Our point about the conservation reserve is that we do need some reduction. We do not need substantial reduction, but 30 to 40 million acres in a conservation reserve will certainly help start to bring supplies more in line with demand, and it will really substantially reduce erosion. There will be some price enhancement. So there are good benefits from that all the way around.

Mr. MARLENEE. I must say, Mr. Gray, that there are a number of us who are looking quite favorably on this conservation reserve, if we can find a way to keep it from impacting on the small communities and closing up shops, implement dealers, fertilizer dealers. We had that problem with PIK.

Mr. GRAY. Right. I agree with that, Mr. Marlenee.

As you look at the information on where this highly erodible land is located, there are very few counties that would be impacted from the standpoint of maybe 50 percent or more of their land that would be eligible for a reserve. However, that kind of a cap could be included, or something less than that could be included, say 25 percent of the land in any particular county could be included, in the farm bill to ensure against that particular problem.

Mr. MARLENEE. If we can develop a program that tailors some of these things in—a conservation reserve, an export certificate, which would in fact probably have the impact of allowing us to influence foreign production by saying that we are going to set that certificate value very high unless they participate with us in some kind of a reduction of acreage—that is an influence on foreign production that we cannot achieve unless we have some kind of a tool to achieve it with.

Mr. GRAY. And get cooperation from the producers, as you are saying, using that kind of leverage.

Mr. MARLENEE. Yes. Our analysis shows about 90 percent participation in this country with my wheat export certificate proposal, plus influencing foreign production. Both of those things are a tool that would work well together and could be tailored into a program and still leave some income protection in the bill that we write.

Mr. SCHNITTKER. May I have one brief word of caution on the export certificate?

Mr. MARLENEE. I would be happy to hear it. That is why we are here.

Mr. SCHNITTKER. I think we have to be more competitive, but if we simply use the export certificate or bonus bushels idea as the export subsidy devise, we are literally pushing CCC wheat out into the market which is already glutted typically with the current crop. So you put surpluses out of CCC hands as the export bonus and if you have to take more wheat from the current crop into the loan or the reserve program.

I would recommend that if we cannot get our loan rates down and if we have to be more competitive, that we simply direct the Department of Agriculture to operate a day-to-day export subsidy program until such time as the dollar declines or until we can get our loan rates down or the world prices come up.

I think an export PIK program, an export bonus bushel program, will probably be a stop-and-start export subsidy program instead of a continuous export subsidy program, and it will not have the desired effect.

Mr. MARLENEE. We appreciate that analysis, sir. We will look at that further when we are trying to evaluate this export certificate program.

The idea of the bonus bushels or the bonus commodities would be that the particular exporter may be perfectly happy to take dairy products, he may be happy to take corn or cotton or whatever may be available from surplus CCC stocks. That is what we found attractive.

We are always pleased to know about the pitfalls because, if we know about those and the concerns, we can evaluate those before we get into actually writing the bill.

Thank you, Mr. Chairman. I apologize for running over.

I ask unanimous consent to revise and extend.

Mr. DASCHLE. You may, without objection.

I am going to call on Mr. Smith, but before I do I would like to follow up on a couple of things personally, if I may.

With regard to a conservation reserve, my feeling is that we ought not simply to be looking at highly erodible land but at all land in a sense, because of the need to maintain and even enhance productivity.

Is there anything wrong in the judgment of any of the panel members with requiring a certain percentage of land to be set aside? Let's not worry about the percentage at this time, but just in concept requiring a certain percent of land to be set aside for conservation reserve purposes as opposed to supply control purposes.

Mr. SCHNITTKER. On each farm, Congressman?

Mr. DASCHLE. Yes.

Mr. SCHNITTKER. Since each farm typically has some fairly erodible land, you could start with that, get into better quality lands as you go. I think in the circumstances we are in we are either going to produce very large surpluses or idle substantial percentages of land for a number of years. The conservation reserve is a much better way to do it than year-to-year paid diversions.

Mr. **Cook**. Yes, absolutely. The consideration I would suggest that we take is that one reason, one strong argument for the conservation reserve is that a substantial amount of highly erodible land out there could be bid into a conservation reserve at quite a bit lower cost than the current system, which uses national average, set, paid diversions. It has to develop very attractive packages to encourage people to participate in the acreage reduction program or set-aside programs, and so forth.

By starting off with highly erodible land, the logic there, rather than looking at any land on any farm, that you are not only solving these conservation problems selectively, but you are also beginning to develop a system that tries to encourage farmers to offer land at the price that reflects its productivity. The concept of the conservation reserve fits that, too.

I would think that we would want to keep our good land in production. That is the way to be competitive in the long run. Unfortunately, we have to yank 30, 40, or 70 million acres out some years to have any kind of production adjustment. We start from scratch. That is what makes it so costly, those year-to-year decisions. I agree with Mr. Schnittker.

Mr. **Daschle**. I guess I would take issue with that a little bit, just in a mild way, Mr. Cook, in the belief that, No. 1, unless you make it a mandatory program, you are just not going to get compliance; unless you are willing to put cross-compliance and offsetting-compliance into a system like that, I just do not think you will ever get a real reduction to amount to the degree or percent of land that you are talking about when you write the law.

The other thing is that it just seems that our foreign competitors are constantly making up in volume what we reduce when we do that. That is why I am thinking that supply control ought to be a secondary matter, and that really we ought to be thinking about conservation reserve as the prime reason for setting aside that part of land and call it that, and be upfront about it, selling it from that point of view, rather than to talk to our urban colleagues about paying farmers not to produce so we can somehow artificially enhance the price. It does not work anyway.

Does anybody else wish to comment? Mr. Neshem, do you have a comment on that?

Mr. **Neshem**. Yes. I would like to comment.

I think that in a conservation reserve program it, if it were enacted, it should be administered on a farm-to-farm basis rather than a blanket situation. The farmer then should either have an opportunity to bid in acres or however it might be handled.

There are areas, I am sure, that it would not be used at all.

Mr. **Daschle**. Thank you.

Mr. Gray.

Mr. **Gray**. I would just like to add to that, Mr. Daschle, that we know from experience, from long and painful experience, that 1-year set-asides are not very effective, the point that you made, because of the slippage factor. The reserve at least would tie that land up under contract for 10 years.

The point you made earlier about whether or not, because it was a voluntary program, there would be that many people participating, that is a very good point. Under the current economic conditions we think a number of farmers would participate in that program. However, one way you might handle that is, say, we are looking back in terms of the sodbuster and saying that, if you are going to bring more of this highly erodible land in, you are going to lose eligibility for the programs. You might make the reserve look forward 5 years and say that, after 5 years, when this reserve has been operational, if you are still cultivating highly erodible land, you will lose your eligibility for that land on that as sort of a stronger incentive to get into the conservation reserve and to get this land out, and then to remove a lot of that land from the cropland base. It just is help to inflate the base, and it really hurts everything, including the soil erosion factor.

Mr. DASCHLE. I am out of time. I am going to come back with some additional questions. Mr. Smith and Mr. Stangeland have a couple more questions.

However, let me just touch upon one thing. You mentioned wetlands. It seems to me, the more I get into this sodbuster thing, that we are facing a lot of the same problems with wetlands that we are with highly erodible lands right now. I am not so sure that it is not time to consider a swampbuster provision just like a sodbuster provision——

Mr. GRAY. I would agree.

Mr. DASCHLE [continuing]. And really start thinking about the difficulties that we are now experiencing with the draining of some of these wetlands, especially in my part of the country. It is less popular.

There is more of a stigma attached right now to breaking up highly erodible land than there is to breaking up a wetland, to draining a wetland, but those wetlands have a very important purpose.

As we talk about the sodbuster, maybe there is going to be a Daschle swampbuster before it is over with, and we will get into that as well.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

First, I would like to comment on your thought, and then I have a question to ask.

I think the reason the Soil Bank Program did not work is because it took highly erodible land and marginal land out of production and total production still increased. If you are ever going to get to the question of reducing production by setting aside land, you have to get into the productive land as well.

Mr. Schnittker, I would like to explore your concern about the export certificate. You mentioned that all the export certificate would accomplish is moving surpluses from the CCC stocks into the world market and further gluting the market. This evidently would further reduce prices and continue to increase surpluses.

How does that statement coincide with your statement regarding acreage reduction. Your recommendation to phase down acreage production would cost some money. My question is, Who is going to pay the cost of making us competitive in international markets? Is it going to be the farmer or is it going to be the U.S. Treasury.

Mr. SCHNITTKER. I suspect, Mr. Congressman, it is going to be a little of both. Under one approach discussed this morning, we would have export payment-in-kind, which would be Government commodities—reducing the export price of commodities.

On the other hand, this committee will be faced with the proposals to reduce loan rates, in which case farmers would pay somewhat for becoming more competitive. It would be a little of both I think.

Mr. SMITH. Then let me ask you, with respect to your suggestion of ratcheting down target prices to $3.30 by 1988, at what level would you estimate the market price of wheat in 1988 under your proposal?

Mr. SCHNITTKER. Was it 1988, sir?

Mr. SMITH. That is what it says here. You go from $4.38 to $3.30 by 1988. I am just trying to get you to estimate what the market price might be under your proposal at that time.

Mr. SCHNITTKER. That is a long time down the road, but with 1.6 billion bushels of wheat hanging around as stocks and big crops coming on, I fear that the market price of wheat in 1988 may be around $3 a bushel. If the loan happens to be lower than $3 a bushel by that time, the market price could even be a little lower.

Mr. SMITH. At that point, would you estimate how many wheat farmers would be forced out or how much production would be reduced from the current level?

Mr. SCHNITTKER. Do you mean just by not planting so much?

Mr. SMITH. I am assuming that many of them cannot make it at $3.30 wheat. I wonder how many you would estimate would be alive at $3 wheat in 1988.

Mr. SCHNITTKER. I think most wheat farmers would be alive at $3 wheat. They may tell us that they will not be, but they will be, but their land will not be worth as much as it was with $3.30 wheat. But they will still be out there producing.

Mr. SMITH. The world market, would you agree, is roughly around $3?

Mr. SCHNITTKER. No, it's—well, about that, basis U.S. farm.

Mr. SMITH. Is it your purpose in ratcheting down the target price to get us to world market prices by 1988? Is that your purpose in this ratcheting down?

Mr. SCHNITTKER. That is the general purpose—to become competitive in world markets over a 2- or 3-year period.

Mr. SMITH. Then would you expect that by some mechanical device of law, the Government would pick up the difference, whether it be in export certificate or commodity bonus of some sort, between $3 wheat and $3.30 wheat by 1988?

Mr. SCHNITTKER. And target price payments to the extent budget policy permits target price payments to be continued.

Mr. SMITH. OK. Thank you very much.

Mr. DASCHLE. Thank you, Mr. Smith.

Do you have any questions?

Mr. STANGELAND. I just have one more question for both Mr. Neshem and Mr. Schnittker.

If we are going to get ourselves to a competitive position, we have to reduce production so we have acreage reduction programs. Shouldn't we have as a part of an acreage reduction program cross-compliance, because we continually have slippage? A wheat grower goes into the program to cut wheat production; the corn grower goes into the program to cut corn production; and then you find the wheat grower raising corn and the corn grower raising wheat. I think we have had a lot of slippage in both in PIK and in every acreage reduction program we have had, we have had slippage because we have not had cross-compliance.

Would you comment on that? If not cross-compliance, at least something to the extent that, if a commodity is under an acreage reduction program and you plant that outside the program, that planting does not contribute to your future base?

Mr. SCHNITTKER. I agree, Mr. Congressman. In fact, I would go further. This is a subject close to my heart, because I have seen over the 20 or 25 years I have been around this town and these programs a constant loosening, an erosion of the effectiveness of these land adjustment programs. I would not just stop with cross-compliance. I would terminate the summer fallow provision, if that is not too heretical for this committee.

I would go after skip-row planting in cotton and a whole series of loopholes that have been introduced to make the programs ineffective, if we are going to continue them.

Mr. NESHEM. I think my comment on that is that we are all the time concerned about producing too much, which is a concern. However, I am mostly concerned—or I should not say mostly but greatly concerned—about why aren't we better sellers? I think that is a big percentage of our problem, is that we have the attitude—and I have been in China, Japan, Hong Kong, and a few places like that, and we are just darned poor sellers.

I agree we are growing too much, but we can cut acres forever and we are still going to have a lot of grain growing.

Mr. STANGELAND. We may be poor sellers, and that is a legitimate charge at a time when we are dealing on a level playing field, but with the strength of the dollar that we have today and the foreign governments in the subsidy program of both production and exports, it makes it very difficult for us to be sellers.

I guess what the farmers have to recognize is that they have two options: they can plant and be flexible and manage their own business any way they want to, and what they will do is manage themselves into bankruptcy, or, if we are going to help them, have some type of less flexibility, which as farmers—and I am a farmer—we do not like, but in exchange hopefully for a better economic situation. I guess that is where we are coming from. It is a difficult call.

Mr. NESHEM. In our statement here it relates to the fact that we have an acreage base rather than an inflated one each year. As you know, each year we plant, if we are out of the program, we get more acres the next year. In fact, I have a farm in South Dakota that has more acres of production than I have acres of land. That is a bad situation. [Laughter.]

Mr. DASCHLE. That is South Dakota for you.

Mr. **Neshem**. And this is the design of the program that is at fault. Naturally, you are going to use it to the advantage if the design is in there for that.

Mr. **Smith**. Would the gentleman yield?

Mr. **Stangeland**. Yes.

Mr. **Smith**. Thank you.

Mr. Schnittker, I cannot let that summer fallow issue go by. Mr. Roberts would kill me. He is not here. However, in my inept way, let me only point out to you, as you well know I am sure, that there are places in this country where we only grow one product, wheat; summer fallow is an integral part of that program. We do not have the alternatives of raising corn or soybeans or any other product. I am talking about the West. To eliminate the summer fallow program would be a disaster not only to the land, but also to the individual farmers who are there who have no other alternative but to grow wheat on a summer fallow basis.

Mr. **Daschle**. The record is so stated, and Mr. Roberts is covered. [Laughter.]

Mr. Neshem, just out of curiosity, where in South Dakota do you have your farm?

Mr. **Neshem**. Have you heard of Hayes?

Mr. **Daschle**. Oh, sure.

Mr. **Neshem**. OK. I didn't know anybody else knew where that was.

Mr. **Daschle**. Well, I represent the State; I'd better know where it is.

Mr. **Neshem**. But, you know, that is a pretty small place in a big place.

Mr. **Daschle**. I want to pursue a couple more questions and then we will let you go.

Mr. Schnittker said earlier that he predicted the 1988 price to be around $3. If that is the case, how many bushels of wheat or corn would it take—you did not say what the price of corn would be in the projection—to service the existing debt? Have you figured that out?

Mr. **Schnittker**. I have not, and I could not do it without my little calculator, but it would be a lot. There is already, Mr. Congressman, perhaps $50 billion worth of debt that cannot be serviced at present prices. Inevitably, adjusting to the world situation in grains is probably going to make the debt situation a little worse.

Mr. **Daschle**. Don't you have a paradox?

Mr. **Schnittker**. You have a paradox. You had the budget crowding you on the other side.

Mr. **Daschle**. How would you address that? How would you address the paradox, then?

Mr. **Schnittker**. Well, I tried to address it in my testimony by giving a little but not too much on each of the issues—a little bit of production control, a little bit of lowering the loan, a little bit of lowering the payments.

Mr. **Daschle**. That just shades the paradox. It does not solve it.

How would you solve the paradox? Under your scenario, prices are going down. If prices are going down, volume is going to have to increase simply to take care of the existing debt, not to mention the additional debt. Even under your recommendations, it seems to me that, while the situation may to a minimum degree be softened, it appears that under that scenario it is not going to be resolved.

Mr. SCHNITTKER. In my judgment it will be resolved over time. A further deflation of farm asset values will exist, unless the Government can find $20, $25 or $30 billion each year for the next 3 years to add to the agricultural budget. I am afraid we are in a terrible fix in world agricultural commodity markets. There is literally no demand. In that situation prices will be low and assets will not be worth as much as they were.

There is no solution to this paradox, only frustration.

Mr. DASCHLE. That is a pretty gloomy outlook. However, under the circumstances, I can understand your statement.

Would you mandate or would you in any way provide an encouragement within the law for blended-credit sales?

Mr. SCHNITTKER. Yes, I think so. There is a good place for credit, and blended-credit is one tool. I do not think it will get us very far when Argentina is selling wheat at $40 a ton or $1 a bushel below the U.S. price, but it will help.

Mr. DASCHLE. I have something else I want to ask that I am not sure I am prepared to ask.

My feeling is, as we look at this paradox in particular, that we have to face up with two realities: No. 1, if we are going to become market oriented, we have to address price. However, if we address price and if we address the issue of price vis-a-vis the existing debt, we have to separate market orientation from some kind of income maintenance or what we will have is the demise of anyone who looks on agriculture strictly for profit. I think that the only people who can exist under these circumstances will be those who can fully utilize existing tax law, because the tax law is their form of subsidy, in addition to the direct subsidy.

If that is the case and if we separate market orientation from income maintenance, can we not devise a plan strictly within income maintenance in mind that would take a target price, take a fair price, whatever it is, subtract from that the current price, divide the difference into a Government commitment of perhaps the average income—it might be $25,000—and get the number of bushels and be willing to support that number of bushels, as clearly our version of income maintenance and still deal with the market orientation on the other side?

Mr. SCHNITTKER. Agreed, and——

Mr. DASCHLE. Conceptually, can that be done?

Mr. SCHNITTKER. This could be done. It would require a rather finetuning of income payments and very careful limitation of income payments, giving only relatively small amounts to high-income farmers. This can be done. In fact, there are people who have worked up such schemes in rough outline form.

Mr. DASCHLE. I have such a scheme, but we call it the market differential plan, where you just take the fair market, subtract the current market, get the market differential, divide it into $25,000, get the number of bushels the Government is willing to support for setting aside a 15 percent conservation reserve, and set that out as clearly what it is. It is not meant for anything other than an income maintenance plan.

Then on the other side, have a low loan for market orientation with a $200,000 limit on commodity credit loan availability.

Mr. Neshem, what would you think of a plan such as that?

Mr. **Neshem**. I would hope that it would be broad enough to include not just a select smaller group of farmers, because those farmers out there that are larger than average, those are the ones that you really should have in a program rather than fencing them out, because if you fence them out, they are going to devise ways of growing grain that are going to be cheap. You are still not going to control production. You are still going to wind up with grain from these smaller operators, and there is a lot of them.

I have no ill feelings for small operators. I think that farmers are farmers. They are going to figure out ways to produce. We have to figure out a way so that there is a profit in production, so that when he is done working, at least he is going to be able to keep his community and other communities a viable part of the country.

Mr. **Daschle**. Let me ask you this: Do we not have a situation right now in which the large producers, to a far greater extent, avail themselves of tax subsidy in addition to direct subsidy, and that that needs to be considered in the balance on what the Government provides to all producers?

Mr. **Neshem**. I guess I do not know if I could answer that question really intelligently or not. I do know that we run a custom harvest operation. We are going to start our 27th year now in May from the South to the North. I do know from a factual standpoint that those big operators out there that you might say are getting all these Government payments have just as big a problem, and maybe bigger.

Mr. **Daschle**. I am not denying that. I am just wondering if there is a limit to the extent that Government can be involved in supporting big anything, if they are getting two forms of subsidy—the tax subsidy and the direct subsidy. It seems to me that if we are looking at all the subsidy and adding that up in terms of value to producers, it is unfair just to discount that and say, "We are just going to be looking at the direct subsidy." If we are going to analyze the real income support, the tax subsidy has to be included in the analysis.

We have a lot of panels here, but I do not want to pass up an opportunity to pick some good minds here. I have two other questions that I want to throw out at you.

I had an interesting luncheon yesterday with the Archer Daniels Midland people. I was not aware of the amazing amount of corn consumption for which they now are responsible. They use 800,000 bushels of corn a day for alcohol fuel production. The reason they use so much is that they are getting greater and greater demand for the use of alcohol to offset the phaseout of lead in gasoline.

They are arguing that we ought not to simply look abroad but look domestically at enhancing the use of grain for ethynol production to replace the lead alternative. Especially now with petroleum prices going up, they see this as a dramatic, new opportunity that has not occurred perhaps in the past 5 years.

I would be interested, No. 1, in any comment you have with regard to domestic consumption enhancement; and then, No. 2, what would you feel about a provision which would allow for an ethynol component mandating the use of CCC stocks for a strategic fuel reserve under what ADM has just suggested?

Mr. Neshem or Mr. Schnittker, have you had any thoughts about that?

Mr. SCHNITTKER. I think a reserve is for emergency purposes. I would not see any reason at all to have ethynol in place of gasoline in a fuel reserve unless we wanted to do it overtly to support an industry or to support farmers.

Mr. DASCHLE. Let me just ask this: In the case of a cutoff or any kind of a degradation in the flow of supply from the Middle East, which is now about 40 percent, endangering the supply lines of adequate flow of fuel, would we not be advised, would we not be wise to develop this strategic reserve for purposes of that kind? Isn't that the emergency that we envisioned when we created the reserve in the first place?

Mr. SCHNITTKER. But we have such a reserve. It is being built up to some extent now.

Mr. DASCHLE. It is 7 percent today, 7 percent of what we envisioned.

Mr. SCHNITTKER. My point simply was that I do not know why we need to have ethynol in it, but perhaps a little would not matter.

Mr. NESHEM. I would like to make a comment.

We are really amiss if we do not—looking into and use ethynol. They are building an ethynol plant in northeast North Dakota now. I am a user of ethynol. I think it is a great fuel. I think when we have these products, they are cheap and they are renewable, and we should be using them.

I am in the oil fields out there in North Dakota. It is costly to drill oil wells. Ethynol or using corn and wheat and barley is just a great alternative. We should capitalize on it.

Mr. DASCHLE. It just seems to me that, if we are thinking of bonus bushels for export purposes, we ought not just discard, without at least really examining the possibility of a bonus bushel system for alternative development of demand in this country. Why are we so concerned about export when we have that market right here?

I just hope that as we pursue this issue we will consider that as well, and I appreciate your comments.

Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman.

I, too, do not want to miss an opportunity with a panel such as this. Mr. Schnittker, this is for you.

Your background is economics? Am I correct?

Mr. SCHNITTKER. Yes.

Mr. STANGELAND. There is a belief—and I somewhat share the belief, and I am not sure it is a correct belief, but I would like to have you comment on it. It goes back to Mr. Daschle's talk about the tax subsidies. There is a belief that we have money in production agriculture that is there not interested in a profit in production agriculture, but rather in a profit in the tax code. Do you see that as a problem? Am I false in my assumption that there are people investing in production agriculture without really concern about making a profit in agriculture, but rather profiting by the tax benefits of that investment in other income?

Mr. SCHNITTKER. I think this is relatively limited in actual management of production, but it is principally in the land component of production agriculture where people go in for basically tax reasons. There may be some in the actual management of production side, but it is mostly in the ownership of land.

Mr. STANGELAND. Have you looked at all or studied at all the situation in California with the extremely large dairies and the expansion of dairying in California—that some of this might not be happening out there?

Mr. SCHNITTKER. I have not. I suspect it is that kind of operation—dairies, big hog operations, maybe some cattle feeding—but not so much in the field crops farming that comes under this committee's jurisdiction.

Mr. DASCHLE. I have one final question.

Looking back over the past 20 years, it has been the policy of our country to make farmers price competitive because of various provisions of the law—tax benefits, income transfers, and things of that kind. Now the administration and others are saying that we ought to be cost competitive; that farmers need to be cost competitive, eliminating those subsidies and then strictly attempting to be cost competitive at their own expense.

Is that realistic in your opinion, given today's credit problems? Is it realistic to change from a price competitive system with Government support to a cost-competitive system without Government support?

Mr. NESHEM. Under the current system that we are living in, I do not see how we can be cost competitive without assistance from the Department of Agriculture, because there are no free markets out there anymore. The rest of the exporting countries are subsidizing the farmer on their level. That is why they are selling so cheap.

I do not think that an American farmer would have a problem if we were all in the same game under the same rules. I think we could be competitive.

Mr. SCHNITTKER. Agreed. It is very difficult to be cost-competitive in this world where the dollar may be 30 percent overvalued, but at the same time, if the dollar stays more or less where it is, those half a million farmers in this country who are going to survive the next 5 years, these family commercial farmers who are going to survive, are going to have to be competitive, whether they like it or not.

Mr. DASCHLE. How can you pit a farmer against another farmer and his government?

Mr. SCHNITTKER. You cannot, but I am not so sure that is the problem here. In this country it is——

Mr. DASCHLE. That is what we are talking about.

Mr. SCHNITTKER. It is mainly the dollar that is wreaking havoc with our cost-competitiveness.

Mr. DASCHLE. Well, it is the dollar. We have one example—and Mr. Neshem, I am sure, is very familiar with this—with Canada right now. We have an overvalued dollar which alone has been the prime reason for a tremendous flood of Canadian pork imports.

However, now, in addition to that, the ITA has ruled that there is an 18-percent Canadian subsidy on top of the overvalued dollar, which is bringing even more of a flood of pork imports into the country.

The overvalued dollar is probably a 20-percent subsidy, but then you add another 18-percent subsidy, which the ITA has ruled right now exists, and it seems to me you have a double whammy. Both of them have to be addressed if we are going to be competitive.

However, even if we reduce that overvalued dollar to even again, you are still talking about that 18-percent subsidy in this case alone. That, to me, is pitting a South Dakota pork producer against a Canadian pork producer and his government, and there is no pork producer that can survive under those conditions.

Mr. NESHEM. You are talking about the pork. The wheat is going to come in, too, and it is coming in, I know, because I am only 60 miles from the Canadian border. The Canadians will just be flocking in now when the harvest season starts in the Southern States because they have free reign, and they are going to be cutting wheat at about 40 percent less than the American cutters. There are lots of problems with this dollar.

Mr. DASCHLE. We have kept you all too long. There are some panels here that are probably wondering if they will ever get up here. We want to thank you all. We have enjoyed this dialog.

Mr. GLICKMAN. Mr. Chairman.

Mr. DASCHLE. I am sorry, Mr. Glickman.

Mr. GLICKMAN. I apologize for being late, but I would just ask a couple of questions.

Is it an across-the-board statement of all of you that you feel we should pass the Foley bill delaying the wheat referendum or deferring it or in some way trying to get substantive farm legislation out of the way first? Do any of you feel that we ought to have the wheat referendum in July?

Mr. SCHNITTKER. Not I.

Mr. NESHEM. I guess we would say that it is all right if the process is there, but we would certainly hope that it does not have to be implemented. We would prefer not to use it.

Mr. GLICKMAN. If you would prefer not to use it, then you would prefer not to go through the aggravation of having it right now.

Mr. NESHEM. That is basically right, yes.

Mr. GLICKMAN. Mr. Gray.

Mr. GRAY. Mr. Glickman, our organization has not taken a position on that one.

Mr. GLICKMAN. Mr. Cook.

Mr. COOK. I think it would depend on how well we can work in any conservation provisions from our point of view.

Mr. GLICKMAN. Let me just tell you something. I am going to recommend to Mr. Foley—and I do not know what he is going to do—that we, in fact, pass his bill and move it because, if we go through a wheat referendum, we will absolutely stop dead the ability to work on a farm bill during the next 60 to 90 days. I just know the psychology of all that around this place. It will affect corn. It is going to affect cotton. It is going to affect rice. Nobody is going to want to move on anything.

I do not know whether that wheat referendum is being used as blackmail or leverage or is just trying to comply with the law, or whether the administration just feels that the farmers should be allowed the right to vote. However, whether it is a good thing or not—and, Mr. Schnittker, I believe in your testimony you indicate that you are not particularly hot about this; we might want to modify the permanent law on the subject of wheat referendum——

Mr. SCHNITTKER. I mainly said that (a) it is not enough just to give Secretary Block the authority to stop the wheat referendum. He probably would not do it. You have to mandate him to stop it. While you are doing it, why not just terminate the permanent law because it is obsolete. Whether the referendum passes or fails, the program is unmanageable.

Mr. GLICKMAN. I really think it is very important, particularly for you folks who are interested in the conservation measures. You will not get any conservation measure. Now that does not mean that we might ultimately not have to look at this issue down the road, but why interfere with the process of writing a farm bill? That is what this does.

It is also being used, I think, by the administration as leverage for us to pass their version of the farm bill, because they figure that the referendum will be defeated—I do not know whether that will happen or not—and then we will have the option of permanent law or their bill. However, I think if they are looking at that, they are looking with blinders because we are not going to pass their bill.

The other question I would ask you is this: one of the items under discussion is legislation that I have introduced. I just want a quick opinion from you on it. It basically says the loans ought to be competitive with the world price but that we ought to have a high target on production for domestic use only as a way to maybe focus the dollars that we have better, and that whatever diversion or supply management programs we have be based on bushels or units of production, not acres.

I wonder if Mr. Schnittker and Mr. Neshem might comment on any of those proposals.

Mr. NESHEM. We in our program have, as you know, $4.38 target price and the loan level at $3.30, which we felt was a number that we could work with. If it had to be lower to get a program through, I guess we would go along with that. We are not as concerned about the loan program as we are maintaining profit in agriculture.

Mr. GLICKMAN. What about the concept of bushels versus acres as a way to base a program? It appears to me always that our programs are ridiculous. We pay farmers not to produce on an acreage basis. They end up producing almost 100 percent in bushels of what they would produce anyway, based upon this crazy idea of a set-aside and then they overproduce the other 80 percent, which hurts the soil conservation measure.

Why not focus your programs more and do it on a bushel rather than an acreage basis?

Mr. NESHEM. Well, it has merit; I would say that. The thing is, as you know, in the past 10 years our ability to produce per acre has just dramatically increased. We do not need as many acres to get as many bushels.

Mr. Glickman. Mr. Schnittker.

Mr. Schnittker. There are very difficult technical and substitutional problems with the bushel question. It could be applied to cotton pretty well and to peanuts and to rice and tobacco, as it has been applied to tobacco. However, with wheat, corn, barley, oats, and sorghum, which have a certain interchangeability, much of which is fed on farms where it is grown, it is very difficult.

I think it is probably better to let the bushels be grown but to make the payments only on a portion of it, as one feature of your bill proposes.

Mr. Glickman. OK, but in concept, I guess my point is, if we have a certain number of dollars to spend on agriculture, which we do, and if we reach the assumption that we cannot have a loan rate that is too high, it would seem to me that the issue for us in the Agriculture Committee is focusing on how we want to spend our dollars. It looks as though paying a higher target price even than $4.38 on a limited number of bushels is better than paying a lower target price on everything that you produce, because that ends up costing us too much money and does not have any supply management effect to it at all.

I just throw that idea out and would urge you to follow up——

Mr. Schnittker. I have both designed and supported programs like that under other economic and political circumstances. I fear that with the present administration this is not probably the time for it, although it did work—and would have worked—under other circumstances.

Mr. Gray. Mr. Glickman, I would just like to respond to that.

The idea of the conservation reserve could work even in the context you are talking about, but one of the strong selling points we think of the conservation reserve is that you do do away with a lot of the slippage problem because you are identifying that land, you are putting it under contract. As you know, the slippage problem occurs a lot, particularly in the annual programs where the farmer has an opportunity to wait and designate his land at the last moment, and so forth.

It gets back to a point that Mr. Smith made earlier about the soil bank. The soil bank was a rather inefficient program back in the fifties and sixties in terms of its taking land but not really reducing production. However, one of the reasons for that is it was not selective at all. In fact, I worked on that program when I was in college, worked with ASCS measuring land. A lot of that land taken out was poor wetland even in many areas of the country. It was not selective at all on some of the production, highly erodible land.

That is why we think, written properly, the conservation reserve can work well under that context. It will reduce production somewhat. We are not saying it is going to reduce production substantially, but it will, and it will close a lot of the loopholes that we now have in the slippage under the annual diversion programs.

Mr. Daschle. We want to thank you gentlemen for your testimony.

I think we are going to have to move the panels along. We still have two yet for this morning and it is already 11:30.

We thank you. This has been an excellent discussion.

Because of the time constraints, we have a witness who has to catch a plane shortly after noon, so I am going to call the third panel to the table next.

The third panel includes Mr. Marshall Faith, the chairman of the Agricultural Policy Committee; Mr. Dean Kleckner, the president of the Iowa Farm Bureau; Mr. Bob Wager, president of the American Bakers Association; and Mr. Warren Lebeck, National Grain Trade Council.

Gentlemen, I apologize for the long wait, but I think we got a great deal out of the dialog and discussion we had in the last panel.

We will proceed under the same 5-minute rule. All of you can submit your testimony in its entirety for the record. I would deeply appreciate it if you could hold your oral testimony to 5 minutes.

Under those conditions, we will begin by calling on Mr. Marshall Faith, the chairman of the Agricultural Policy Committee of the National Grain and Feed Association.

Mr. Faith.

STATEMENT OF MARSHALL FAITH, CHAIRMAN, AGRICULTURAL POLICY COMMITTEE, NATIONAL GRAIN & FEED ASSOCIATION

Mr. Faith. As well as that, I am also the president of the Scoular Grain Co. in Omaha, NE.

The National Grain & Feed Association is a voluntary association of grain and feed firms. The operations of our 1,250 members include grain elevators, terminal elevators, processors, and exporters. We are the grain merchants to the world. This brings to this particular panel a particularly unique marketing viewpoint.

We appreciate our opportunity to appear before you today to present our views on an issue of critical importance to the future of U.S. agriculture. It is, obviously, critical to farmers, but it is also critical to the national economy.

U.S. agriculture represents 24 million jobs in the United States, something like 20 percent of the gross national product. The large majority of these jobs is industries outside of production agriculture.

The decisions on this year's farm legislation then will affect many economic sectors, a large proportion of which are beyond the farm gate.

It is very apparent that we have some serious problems in agriculture that must be addressed. This year the United States will export 54 percent of the total world's trade in feed grains. In 1979 the U.S. share of that market was 72 percent. This year America will provide only 36 percent of the world wheat trade compared to 48 percent in 1981.

Our members predict that the U.S. exports could be down to less than 25 percent of the total market next year. We think it is very likely that the total exports of wheat, corn, and soybeans for 1985 and 1986 will drop below the 4 billion bushel level, the lowest level in 10 years, and potentially 25 percent under the peak of 1979-80. These figures are alarming.

Since we realize that the farmers of America can probably produce all the grain we need domestically on 50 percent of their acreage, if we do not stop the erosion of our foreign markets, the opportunity for the U.S. farmer is thus reduced by 50 percent and perhaps 50 percent of the farmers.

There are many factors affecting our export competitiveness, but by far the more dominant factors eroding the U.S. export competitiveness since 1980 have been the increased value of the dollar and domestic agricultural programs.

Corrective action: the good news, in our opinion, is that the market-oriented farm program will help us stabilize the present percentage of the world grain trades and actually to increase by 1990 by 2 or 3 percent, a chance to move back up in the amount that we can enjoy.

Certainly a weakening dollar will help the United States to become more competitive, but just as important will be adopting domestic farm policies that adjust to real markets.

Basic changes must be made immediately in the domestic farm programs or agricultural exports and farm income will remain depressed for the balance of the eighties. We need in 1985 legislation, a program that can make the needed adjustments in agriculture as quickly as possible. With the right program, economic recovery can begin now. If we delay or otherwise devise the wrong programs, recovery may never reoccur.

We need programs that make the best use of Government moneys that are available, to support farmers' income through the adjustment process.

Finally and importantly, we need a program that brings hope to the farmers of America. We think that the right farm program for 1985 is one that offers recovery in the shortest time frame and a program that lets the U.S. farmer know exactly how much Government income support he can expect in the next few years, so that he can plan effectively with his bankers.

The most important change in farm policy that must be made in 1985 is swift elimination of programs that try artificially to support prices and to hold U.S. grain off world markets. There are several parts to this kind of policy adjustment.

It encompasses loan rate policy, land diversion resources, as has been talked about earlier. To make the United States competitive again in export markets the adjustment in loan levels should be done as rapidly as possible based upon current world price levels. Loans set at perhaps 70 to 75 percent of the average of the previous 3 years would be our recommendation.

To assist producers with the adjustments, direct Government income payments will be needed. They should be more generous in the early years of the program because this is when the greatest income pressures of the producers will come.

In summary, we would recommend that the Congress be extremely generous in this area; that the payment be made hopefully prior to harvest so that the farmer will know exactly the money he has to work with.

[The prepared statement of Mr. Faith appears at the conclusion of the hearing.]

Mr. **Daschle**. Thank you, Mr. Faith.

Mr. Kleckner.

STATEMENT OF DEAN KLECKNER, PRESIDENT, IOWA FARM BUREAU FEDERATION, AND MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION

Mr. Kleckner. Thank you, Mr. Chairman.

My name is Dean Kleckner. I am a corn, soybean, hog farmer in northern Iowa. I am here as president of Iowa Farm Bureau and a board member and representing and giving testimony for the American Farm Bureau Federation.

I would like to mention and compliment Representative Emerson, who sits on this subcommittee, who is sponsoring our farm bill, H.R. 1965, originally cosponsored by several other members of this subcommittee: Cooper Evans, my Congressman; Pat Roberts; Mr. Schuette. Now in the Senate it has been introduced by Senator McConnell as S. 908.

I have prepared testimony which I will highlight and then perhaps take questions later.

On the first page we say that we will support a farm bill which will maximize long-term opportunities for profit in agriculture. Obviously, we need profit. We do not need more loans or more debt.

Point 3, it has to insure price competitiveness in the world market. We have heard that already today a number of times from every person that has been here.

Point 7, we say, to maintain to income, we are for target prices—as an income supplement. I think that is key.

Point 9, on the first page, recognize that all commodities are interrelated and any change in supply, demand, or price of one affects some of the others or all of the others. I, as a livestock producer, know that, and I think we have to take it right over into the world situation. As we change here, the world changes in reaction to our change.

On the second page, some details: in loan rates, the middle of the page, we, too, support and believe we need loan rates based on 75 percent of the preceding 5-years' market average with the high and the low year thrown out. That is getting to be virtually a unanimous view, it seems to me.

That is not new. That is the way we set the soybean loan rate today, and the soybean price support system works. We need to copy success.

In the next paragraph, we believe that loan rates set in this manner will signal to our international competition that we will not provide them with long-term price protection. We have been doing that with our inflexible loan rates. We have literally, gentlemen, been asking them to do what they have been doing—to pick up when we cut back. We should not be surprised that they have been doing it.

With regard to soybeans, we do not propose any additional soybean provisions. What we have is working. We need to copy it and not change it.

On the third page, regarding target prices, we support a continuation for income supplement reasons and we think they should be frozen in regard to wheat and feed grains in 1986 at 1985 levels, and thereafter have them adjusted and base it on 110 percent of the 5-year market average, the same market average that is used to determine the loan rate. Instead of 75, you go to 110 with a 5-percent adjustment allowed per year, as opposed, we say, to no more than a 10-percent allowance of a change per year, either up or down, in the loan rate; 5 percent in the target prices.

The target price system will allow producers time to adjust to a more market-responsive farm program that needs to happen, and it will happen some way. In exports—and that is a key to our farm bill, export market expansion—we believe that the area in which substantial improvement can be realized in agricultural profitability lies in the area of exports. We, therefore, place great emphasis on this and a strong trade title in our bill.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and Public Law 480, our Food for Peace program.

Regarding the CCC export credits, it is regrettable, we believe, that the credit revolving fund which was part of the 1981 farm bill was never funded or activated. It was in the bill, but it never was funded. We think that should be incorporated in the 1985 farm bill and funded, and make it an attractive export tool.

We think there should be an intermediate CCC Export Credit Program to take care of credit needs for terms of 3 to 7 years, and this was in the Agricultural Trade Act of 1978, but it was not utilized. It ought to be used.

At the top of page 4 of the testimony, we support the development of an Export Bonus Program—and that has been mentioned already earlier today. Under such a program, bonus tonnage of farm commodities and products would be made available from the Commodity Credit-owned commodities to lower our export prices, to offset the advantages other countries now are using and doing as they compete with us in those markets.

The blended credit program has been saddled with cargo preference laws, and we believe they ought to be changed and gotten rid of.

I will summarize a couple additional points. With regard to the Acreage Reduction Program, we think the Secretary should implement that when carryover supplies exceed 4 percent of world utilization.

With regard to the conservation reserve, we support a 7- to 15-year, long-term Conservation Reserve Program.

The final point I would like to make is this: The best policy, though, gentlemen, that you can give us is a commitment to fiscal responsibility and reducing overall Federal spending in order to get those interest rates down, currency exchange rates more in line—they have been dropping recently, incidentally—and get our exports back in line.

I do not think you can write a farm bill that will do what needs to be done unless something is done in the area of fiscal responsibility.

Thank you, and I will respond to questions later.

[The prepared statement of Mr. Kleckner appears at the conclusion of the hearing.]

Mr. Daschle. Thank you, Mr. Kleckner.

Mr. Lebeck.

STATEMENT OF WARREN W. LEBECK, NATIONAL GRAIN TRADE COUNCIL

Mr. LEBECK. Thank you, Mr. Chairman. I appreciate your courtesy. This is my wife's birthday, and the opportunity to take her to dinner will be much appreciated.

The National Grain Trade Council believes the 1985 farm bill presents an opportunity to stem the erosion of the U.S. position in international markets, to regain our role as a preeminent supplier of agricultural commodities in world markets, and to place agricultural policy on a firm foundation for the long-term benefit of this important industry.

All aspects of agriculture have a vital stake in the policy choices Congress will make this year to guide future farm programs. Agricultural producers obviously, but the farm bill will also affect the livelihood of many others in the agricultural sector, including those who supply equipment, seed, and fertilizer as well as those who market and process farm products.

This subcommittee is well aware of the depressed state of agriculture and the decline in agricultural exports. This reduction in exports has left the entire agricultural system with excess capacity. One of the most serious problems we face is our lack of competitiveness in world markets.

The council believes that a new direction is needed for farm policy. We believe that basing agricultural policy on market principles offers the best solution to the problems facing agriculture. We recommend the farm bill contain the following features:

First, loan rates that are flexible and set at levels that allow the United States to be competitive in international markets. We believe this can best be achieved by basing loan rates on a moving 5-year average of market prices, dropping the high and low years.

Second, an income support program aimed at farmers in the middle tier of sales. We recommend that target prices be discontinued in favor of a new approach.

Third, a grain reserve program that is capped at specific levels. This level could either be in terms of quantity or as a percent of total use.

Fourth, a long-term conservation diversion program be established. We recommend setaside and acreage reduction programs be eliminated.

Fifth, aggressive promotion programs to aid in building export markets. We recommend that Public Law 480 be continued but streamlined and redirected toward long-term market development. Intermediate Term Credit Programs should focus on infrastructure development. Private Investment and Market Development Programs should be encouraged. U.S. markets should remain open to exports. Trade, after all, is a two-way street.

The council is concerned that institutionalizing direct export subsidies would not be good public policy. Direct export subsidies should be used only to achieve specific goals, not as a general policy.

We are deeply concerned by the problem of cargo preference requirements. You are aware of the recent court decision which has ruled that USDA blended credit programs should be subject to that requirement and, as a result, USDA has suspended this important program.

We support, as an immediate step, legislation to exempt agricultural exports except Public Law 480 shipments from cargo preference. We further support efforts to completely remove the applicability of cargo preference to agricultural exports. The council believes that funds allocated for humanitarian purposes, such as those under Public Law 480, should not be used to subsidize the maritime industry.

The council opposes the administration's proposal to increase the origination fee on GSM-102 loans to 5 percent. Such a fee would seriously detract from the loan program and dramatically increase the loan fee which is now about one-third of 1 percent. We would support a provision in the farm bill placing a ceiling on such fees at the one-third of 1 percent level.

We believe the United States should aggressively seek the elimination of unfair trade practices by other countries. A healthy agriculture must compete in the international market, and it is not fair to expect it to compete against the treasuries of foreign nations.

The National Grain Trade Council favors a policy that will return long-term prosperity to agriculture, for as a rule, when agriculture prospers, we all prosper. Conversely, when agriculture suffers, we all suffer.

We believe a market-oriented farm policy will provide the best framework for restoring the long-term health of the Nation's largest industry.

A great burden rests on the Congress and the administration. The agricultural situation cannot be considered in a vacuum. It is too much affected by other factors such as economic policy, the strong dollar, Federal deficits, and interest rates, to name the most significant, and by the trading practices of other nations.

Statesmanship will be required to package debt reduction, trade policy, and a farm bill that together can promise a brighter future for our agricultural economy and our national well being.

A final personal—and I stress "personal"—opinion: I truly believe the way to tackle the deficit is to treat everyone and everything equally. Everyone, everything should sacrifice. Fairness and equity, that is a concept that the American people can understand and accept.

Thank you.

[The prepared statement of Mr. Lebeck appears at the conclusion of the hearing.]

Mr. DASCHLE. Thank you, Mr. Lebeck.

We hope your wife has a happy birthday.

Mr. Wager.

STATEMENT OF ROBERT WAGER, PRESIDENT, AMERICAN BAKERS ASSOCIATION

Mr. WAGER. Thank you, Mr. Chairman.

I have a longer statement, and I ask that it be placed in the record.

Mr. **Daschle**. Without objection.

Mr. **Wager**. I will summarize briefly the main points of our statement.

Mr. Chairman, my name is Robert Wager. I am president of the American Bakers Association. My statement today is submitted on behalf of three organizations: the American Bakers Association, the Independent Bakers Association, and the Retail Bakers of America.

In the 1985 farm bill we believe that Congress should aim for three goals:

First, commodity programs must become truly market oriented. Congress and three successive administrations have claimed the previous laws were market oriented, but in fact Government interference in the agricultural market has increased in recent years. Now Government must truly reduce its role and allow market signals to determine production levels for major crops.

Two, programs should be designed and support levels established in the 1985 act consistent with the objective of spending no more than $6 billion per year as an average over time on all commodity price and income support operations.

Three, while Congress is reducing the Federal role in agriculture, we must take care to avoid extreme swings in commodity prices. The roller coaster prices of the early 1970's had a severe impact on bakers, especially our small- and medium-sized bakers.

Government has a responsibility to cushion low prices with an economic safety net, to provide some stability for producers. At the same time Government should provide some price protection for consumers against excessively high prices which are an economic shock to business budgets and to family pocketbooks.

Our specific recommendations are very similar to those that you have already heard, so I will just mention them briefly.

On loan rates, we, too, support adapting the soybean formula to wheat and feed grains.

On target prices, we believe that they should be phased out over time in the next 4 years.

On acreage reduction, we believe that these programs have been shown to be ineffective and they ought to be terminated.

On reserves, we support the commodity-owned reserve program. We believe it has a necessary and proper place among our commodity programs. We recommend that it be returned to its original purposes. To achieve this, CCC and farmer-owned reserve stocks should be kept at 700 million bushels of wheat and the reserve entry price limited by law to no more than 5 percent above the current loan rate. At the same time the release price should be kept reasonable, no more than 150 percent of the entry price.

Correspondingly, when the reserve falls below 300 million bushels, the Secretary should take measures to replenish reserve stocks.

We want to strongly endorse Congressman Glickman's effort to repeal the requirement of the referendum and the concurrent wheat certificate program with that. We believe it has no place in a modern program.

Finally, we want to urge continuation of section 114(a) of the Agriculture Act of 1981, which currently requires the Secretary to donate surplus stocks of commodities with charge or credit and make them available to child nutrition programs, food banks, and nutrition programs for the elderly. We believe that this program has worked well and that it should be continued.

The crisis facing the farm community is well known. Distributing surplus commodities such as nonfat dry milk, cheese, and wheat is a logical way of helping both farmers and Federal nutrition programs.

Thank you.

[The prepared statement of Mr. Wager appears at the conclusion of the hearing.]

Mr. **Daschle**. Thank you, Mr. Wager.

I thank the panel for your excellent statements.

We will start with Mr. Stangeland.

Mr. **Stangeland**. Mr. Chairman, I will just forgo my questions for now as I have a chance to peruse their testimony. Unfortunately, I was not able to be here to hear it.

Mr. **Daschle**. OK. Mr. Bedell.

Mr. **Bedell**. I will also defer to someone else.

Mr. **Daschle**. Mr. Roberts.

Mr. **Roberts**. The same.

Mr. **Daschle**. Mr. Volkmer.

Mr. **Volkmer**. I will start.

Why do we want a reserve? If we are going to have a market-oriented program, why have a reserve?

Mr. **Wager**. I think that a reserve contributes to our reliability as a supplier in the world market. It also assures a reliable supply for the domestic market as well, and tends over time, I believe, to eliminate the roller coaster prices which were so damaging to the farm sector and to the business community during the early to midseventies.

Mr. **Volkmer**. I agree with that, but on the other hand does it also not, by making that grain available and everybody knowing that it is available, depress prices?

Mr. **Wager**. I do not think so, because I believe that the way that the farmer-owned reserve has operated over time has been that you know that those stocks cannot come out until the reserve release price is met. Those reserve release prices have been set at levels substantially above certainly what would be anticipated market prices. I think they have said that when it reaches a certain level—what was that, 140 percent I think—that then the storage payments would stop. I think at 150 or 160 percent then the farmer had to redeem. Now that did not mean that he had to sell it, but it would mean that he had to redeem his loan, which at that point would be substantially below the market price.

Mr. **Volkmer**. Let's assume that we did not have a reserve—in other words, a Government reserve whatsoever. Wouldn't the millers and others who use wheat—Mr. Faith, wouldn't the grain companies, the feed companies, have their own reserves? Wouldn't they buy that reserve in order to protect themselves? Do you want to answer, Mr. Faith?

Mr. **Faith**. Absolutely, and it used to be done that way.

The price mechanism will take care of it over a period of time.

Mr. VOLKMER. Those things would happen, but, on the other hand, instead of the Government handling it, you have the private individual, but you do have more instability in the market; is that correct? We agree on that; isn't this correct?

Mr. WAGER. I think there would tend to be more instability in the market. I think it would tend to make the United States a less reliable supplier in the world market.

I will tell you that bakers simply do not have adequate working capital to maintain a substantial supply of flour.

Mr. VOLKMER. I agree, but I think the millers I am talking about, such as Pillsbury and General Mills, those I am sure would have a hedge to protect themselves for future deliveries. They are going to buy up and they are going to maintain some kind of reserve.

Mr. WAGER. I could not speak for them.

Mr. VOLKMER. I agree that bakers themselves, many of them, would not be able to, but——

Mr. LEBECK. Mr. Volkmer, along with that please put a guarantee on future export embargoes.

Mr. VOLKMER. Pardon?

Mr. LEBECK. Along with that please put a guarantee against export embargoes.

Mr. VOLKMER. Yes, I agree with that.

Mr. LEBECK. OK.

Mr. VOLKMER. I am not espousing it, but what I am trying to get to is that we have here people saying we need a free market, a market-oriented program, and yet we still need some Government activities. What I see is the Government activity then impacts on the price that my farmer receives for his commodity, and, therefore, I feel that the Government also has an obligation to that farmer as much as he does to the consumer, as much as he does to the traders, as much as the Government does to the international community. We have the same obligation to the farmer. He is the one that is producing all of these. He is the one that is taking a risk on the weather, not the person that is trading it, not Cargill or Continental or anybody else, not the people who play on the markets, not the bakers. No one else has to worry about the weather.

Mr. DASCHLE. Thank you, Mr. Volkmer.

Mr. Emerson.

Mr. EMERSON. At this time I would like to reserve.

Mr. DASCHLE. Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

I would like to address to the panel a somewhat general question that has not been treated, I think, to any great extent this morning, and that is this: Regardless of what we do in new farm legislation, we are accumulating surpluses owned by the Federal Government at an extremely rapid rate. I do not know what the figure is today, 8 or 10 million tons, I suppose. It is going to be maybe 20 million tons before the end of this calendar year. We are putting in a crop under the old bill right now that could very well add another 10 million tons from this crop eventually before the new farm bill even begins to take effect.

What in the world should we do with those surpluses that already are in the pipeline that are going to end up in the Commodity Credit Corporation and with them as the total owner? What policies should we use to address that particular problem? I am addressing this to any of you who would respond.

[No response.]

Mr. EVANS of Iowa. If none of you have any thoughts, that is all right, too. We do not have too many, I think.

Mr. KLECKNER. Mr. Evans, it seems to me that in the area of exports, we address it in the 1985 farm bill, but we need to get into the ball game before the 1985 farm bill in the area of increasing exports through some credit programs, blended credit, export credits. Maybe some commodity bonus-type programs can be effective in getting rid of the surplus that is building.

I agree with you that we are building toward the need of another gigantic PIK Program again if we are not careful. It is being built under the existing farm program, which hopefully the new farm bill will change. We surely do not need an extension of what we have now. I do not really think there is much sentiment for that, but it seems to be talked about now and then.

Mr. EVANS of Iowa. So you would like to move those out and use them to the extent possible to promote our export markets?

Mr. KLECKNER. I guess I do not see the other alternative. It has to be used somewhere, either domestically or in export. We simply need to get back and become a major player in the export market rather than a residual player that we are allowing ourselves to get into, partially because of the embargoes, we price ourselves out of the market—there is enough blame to go around. We cannot point it all at the embargoes, incidentally.

Mr. WAGER. Yes, we would certainly support that as well. I think we have to look at every opportunity to utilize these commodities in both the domestic market and in the international market. One thing we pointed out in our testimony here is the section 114(a), allowing the distribution of surplus commodities. It does not now include wheat. We think the section ought to be amended to include the donation of wheat.

There are lots of nonprofit organizations in this country that could certainly use that in domestic feeding programs. We have a real substantial need there which is not being met. We believe that international and domestic opportunities ought to be very closely looked at to make sure that we take advantage of every single one to utilize those surplus commodities.

Mr. FAITH. I would like to add, as marketers, we are very worried when we try to influence the use of products around the world.

Mr. EVANS of Iowa. I am sorry, I missed a word there.

Mr. FAITH. I guess I am trying to say that, when we look at the international complications of a subsidy type of program, we are very concerned that we just shift demand around the world and we have not truly created any new demand. This is a tremendous dilemma.

However, a one-time transitional program would certainly put the world on notice that we are here, we are coming back, and we intend to be in the ball game.

I would be very concerned if this became something that dribbled on for 10 years, just one type of adjustment after another.

Mr. **Lebeck**. To steal from an astronaut, one small step would be to pass a cargo preference bill.

Mr. **Evans** of Iowa. Yes. OK. We would like to do that, too.

Thank you, gentlemen.

Thank you, Mr. Chairman.

Mr. **Daschle**. Thank you, Mr. Evans.

Mr. Bedell.

Mr. **Bedell**. Mr. Chairman, I do have some questions.

First of all, Mr. Lebeck, you indicated you would eliminate target prices and lower loan rates, and you would do something else but I cannot tell, at least from your testimony, what that other thing is. What would you do to try to maintain farm income if you were to lower loan rates and eliminate target prices?

Mr. **Lebeck**. One of our other proposals was to take care of the middle class of farmers. That would be through probably direct payments.

Mr. **Bedell**. What type of direct payments other than target price payments?

Mr. **Lebeck**. I really have not come to a conclusion on that score, Mr. Bedell, but obviously that is—I guess you would call it a social program which has to be taken care of. You cannot just abandon them.

Mr. **Bedell**. It seems to me, if we are going to recommend that we eliminate something, then we should recommend how we replace it or what we do, unless we are going to recommend doing nothing. I take it you do not recommend doing nothing.

Mr. **Lebeck**. That is correct.

Mr. **Bedell**. Mr. Wager, you indicate that you think we ought to have a long-term land diversion payment instead of target prices. The problem I have with that is what sort of payment you are going to make on the long term, because my farmers are in such terrible trouble that, if we eliminate some type of a payment, the target prices or something similar to that, and only have a long-term land diversion payment, the catastrophe in Iowa—and I think Mr. Kleckner would agree—is going to be pretty dramatic.

Is there something else you would do or would you pay high prices for that land you set aside?

Mr. **Wager**. I think that we would want to get the maximum amount of land into the reserve for as low a cost as we could. However, it seems to me that we ought to be able to help these farmers who are now in a very difficult time with a more generous credit policy than we have had. It seems to me if we can bail out Argentina and Mexico, we ought to be able to arrive at a credit policy that would stretch out these loans and to make other arrangements that would reduce the pressure over the near term on some of these people who are in distress, and allow them the time to work out these problems in a market-oriented situation.

Mr. **Bedell**. Just so we understand any disagreement we may have, I do not believe my farmers can borrow themselves out of trouble. I think they are going to have to have some income in order to try to make enough money to pay off those debts over the long run. At least the information I have indicates that many of my farmers are not making sufficient income today to pay their expenses including their interest payments.

The only thing I would ask of you is that you look into it, because I believe, if you look into it, you will find that in effect only giving farmers a paid diversion program in terms of income support is going to be pretty catastrophic to our agricultural community. I am not here to argue with you, but I would hope you would look at that before you go too far trying to push it in terms of the problems of our farmers.

Mr. Wager. I think that is a fair point. We would continue the target price program on a sliding basis over the next 4 years.

Mr. Bedell. Oh, you would? I guess I did not read your testimony correctly. Good.

Mr. Kleckner, if I might, I would simply say that I think there are many of us who feel that there are generally some very good things in the Farm Bureau proposal. It is not because you are from Iowa. You and I have had disagreements from time to time. At least for myself, I would like to commend you and congratulate you for some of the proposals that are included in the Farm Bureau bill.

I do not know what we will come out with in total, but I think you have contributed very significantly toward what we may do.

Mr. Kleckner. Thank you, Mr. Bedell.

In all my years in Farm Bureau, I think this is the best farm bill that we have come with that has the most unanimous agreement from around the country—north, south, east, and west—from all the States, and that is saying something when you get farmers from all over the country to agree to a concept. On most of the finite provisions there is agreement. It is a middle-of-the-road bill that is really family farm oriented, and it is budget oriented. We do not need to tell all of you that the budget is a major player now. The cost will not go out of sight, as it would under some other bills. It is a very good bill, and I appreciate your comments.

Mr. Bedell. Mr. Faith, if I might say so, I think maybe your parents should look at the name they gave you, because I read in your testimony, "Regardless of what farm policy decisions are made in 1985, we believe U.S. agriculture faces difficult economic times ahead for at least the next 2 years." I suggest maybe your name of "faith" is maybe a little bit improper today. [Laughter.]

Mr. Faith. Thank you.

Mr. Daschle. Thank you, Mr. Bedell.

I would thank the panel. We appreciate your testimony.

Mr. Stangeland? I am sorry.

Mr. Stangeland. I just have a couple questions. Again, I have to apologize to the panel. We have some excellent testimony before us and some that we would like to pick apart and broaden.

First of all, Mr. Kleckner, just a comment and maybe a response: I think Farm Bureau has really addressed the farm problem, perhaps better than they have ever done before in my recollection. I am not sure that it is the exact answer in these economic times. Back in 1969, 1973, or 1965, it probably would have been an appropriate approach. I do not pick it apart, but I think you have done a good job.

I am just wondering, if we were to adopt Farm Bureau's proposal, have you run a model at all as to the impact on Iowa? Iowa, from what I have been able to gather, is one of the most severely-impacted States right now in the economy, partly perhaps because your land values have escalated far more than anyone else's and leveraged against that value.

Have you run a model as to what Farm Bureau's proposal, if we were to adopt it, what kind of an impact that would have on Iowa farmers?

Mr. KLECKNER. Not to my knowledge have we run a model State by State or on any State or on my State. We do have a model of costs and price projections year by year for commodities. We could apply that to Iowa.

I agree that we are severely impacted in our State, as you point out. With land values down 60 percent, in my view on the average across the State of Iowa—down 60; they are at 40 percent of what they were in 1980-81 at the high time—there is simply going to have to be farm debt written off and lost by somebody, some entity, whether it is a bank, farmers themselves, suppliers, or probably a combination of all of those. There is no way, in my view, that all the current farm debt is going to be restructured and paid for and interest paid on it. It will be written down.

That was a long answer to your question, but we have not done it for our State.

Mr. STANGELAND. I have not heard any disagreement from any of my colleagues on the committee that, whatever we do, we are not going to save everyone. We recognize that.

I think what all of us are agonizing over and attempting to do is hedge our losses as much as we can.

Mr. Faith, I have just a couple of points. You make the statement that, with the right policy, economic recovery can begin in 2 or 3 years. I gather that you are looking to something similar perhaps to what Mr. Schnittker put forward on the table as far as future of price supports, and you talk about competitiveness.

I am wondering if you have any assessment of what our losses in numbers of farmers in the next 2 or 3 years might be in that adjustment period that we are going to have to go through.

Mr. FAITH. You might be interested that the model that we have run has come from our world members. We have a unique group of people who are actually not opining but are actually doing and working on all these overseas markets.

The comparison that our group has been able to use is the actual model of what will happen under a more flexible loan type of program as well as reports in from the field independently assessing the same type of thing. We feel that our numbers are pretty good that indicate that, yes, in fact, if we do move into a—we have a chance to hedge our losses. We can hold the present loss of export markets and actually start to move back by the end of the 1990's; that is the hope we see.

I have the same concern with everything that is being expressed. With land values moving in the State of Iowa from 1973 where they had been nearly flat at $500 an acre for 20 years and suddenly moving to $2,200, and apparently now we are back to half of that down there again, I have no idea how these adjustments are going to be made. They are very difficult.

Mr. STANGELAND. The other problem that we have is this talk of market oriented and being competitive. It just seems to me that

that all points to trying to find a way to produce it cheaper in the long run.

Mr. FAITH. That is right.

Mr. STANGELAND. One of my concerns—and I have expressed this to the Secretary and others—is that, if we are going to go market oriented, then let's go market oriented all the way. The day that we run a little short here and the market starts to run up let's not do something to cap it.

Mr. FAITH. I agree.

Mr. STANGELAND. Let's allow the farmer the high side. We never have. We have always done something.

You bring it out, and I realize it is not a true market, but you bring it out criticizing the reserve. You state, "Having established release levels too high can create artificial market shortage." I realize that is not the true market, but it is an example of how it might work.

Then you say that the United States has imported Canadian wheat because we had too high a price in this country. I am not sure that we will ever let the market-oriented policy work to the benefit of agriculture. It is always intended and meant to work for the benefit of the consumer.

Mr. FAITH. I think that is the way it has worked.

Mr. STANGELAND. It puts us in a terrible——

Mr. FAITH. I think our industry, frankly—the original terminal elevators built in the United States were built to carry grain from crop to crop. That was the original business.

I think we are willing to accept a reserve but reluctantly. We have great faith in the price reward on both sides of the cycle system.

Mr. STANGELAND. Frankly, I think the reserve probably has caused us more agony than it has ever solved.

Mr. FAITH. Exactly.

Mr. STANGELAND. Nevertheless, if it is there and it was put into law as a tool to help supply management in a way, then we do not allow supply management to work the way we structured it ourselves.

I thank you very much.

Mr. DASCHLE. I have to associate myself with the remarks of Mr. Stangeland. I think he is absolutely right. I really think we have to be careful as we look to this thing.

Mr. Roberts.

Mr. ROBERTS. Yes. Thank you, Mr. Chairman.

I also want to thank the members of the panel for their very fine statements, and especially my friend from the bakers association for making a fine statement in regard to the economic adversity facing our farmers.

I know you are concerned about the very point that my friend and colleague from Minnesota made on the high rollercoaster part of it, and to take this kind of unpredictable kind of thing out of farm program policy, but you made an excellent statement.

Mr. Chairman, I would like to ask permission to insert a statement in the record following a statement made by a good friend of mine, Mr. John Schnittker, who earlier testified in regard to program policy and made some unintentional, I am sure, statements that perhaps sullied the reputation of that patient, fair, and blameless Indian princess in my country, summer fallow. [Laughter.]

John is from Kansas. He has been in Washington for 25 years. He knows better. I know and I share his concern about program integrity. I have some feeling, Mr. Chairman, that sometimes we should summer fallow those folks who are in the consulting business at least for one summer [laughter] especially those who try to shine the light of truth into darkness on a very selective basis. It wasn't the summer fallow producer who was responsible for any kind of program slippage. We had less than 5 percent of our people signed up in the program until we made the necessary acreage-based changes to get 70 percent of our people in the program, and I am sure that Mr. Schnittker would not want to disenfranchise those people from his home State.

My statement will reflect my concern. More strong words to follow.

Thank you.

Mr. DASCHLE. Let me just understand. Was it the statement you have just iterated, that is what you want inserted in the record following his remarks?

Mr. ROBERTS. Those are more or less along the lines that I think I will have in my prepared statement, but I would like to have both, please, Mr. Chairman.

Mr. DASCHLE. Well, I knew that Mr. Schnittker would not get away with any rash statement about summer fallow without at least a rebuttal on the part of the gentleman from Kansas. Without objection, it will be included. I am sure his ears are burning now just like they would have been had you been here at the time.

If there are no other questions, we want to thank the panel. We appreciate your testimony and the answers to the questions.

We are going to proceed, as was originally scheduled, with the final panel, with our sincere apologies for making you wait as you have and for giving up part of your lunch hour to present your testimony. However, in order to stay on schedule, I do not think we have any choice.

We will call to the witness table at this time Mr. John Pender, the agricultural policy analyst for Bread for the World; Ms. Patsy Goodman, the International Association of Fish and Wildlife Agencies; and Mr. Daniel Weiss, of the Sierra Club.

We are grateful to all of you for your patience and your willingness to testify this afternoon.

Maybe we will start with Ms. Goodman.

Thank you for coming. Your entire statement will be included in the record. We are delighted you are here. Please proceed.

We are working under the 5-minute rule. If you can present your oral remarks in a manner that will keep below the 5 minutes, we would appreciate it.

STATEMENT OF PATSY GOODMAN, INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE AGENCIES

Ms. GOODMAN. Thank you, Mr. Chairman and members of the subcommittee.

I represent today the International Association of Fish and Wildlife Agencies. This association consists of all the 50 State fish and wildlife agencies, as well as those of Canada and Mexico. Additionally, the National Wildlife Federation, the American Forestry Association, and the Wildlife Society wish to be a party to this statement.

Mr. Chairman, farm management is a major factor, perhaps the single most important factor, in many States, in habitat availability for wildlife. Loss of soils through erosion means loss of the very substrate of terrestial wildlife habitat and usually means loss of water quality for the aquatic species as well. Good farm and good soil management often makes the difference between the total loss or at least a decline of wildlife and the continuing existence of self-sustaining wildlife populations in rural America.

A new direction in the 1985 farm bill, particularly with regard to the commodities programs, is not just of interest to the farmer; it is of concern to wildlife managers and the general public. A broad-based policy in the farm bill that supports good soil and water management will ensure the continued ability of our farmers to produce agricultural products, will ensure a healthy commodities market value, and will ensure good wildlife habitat. It is time that an integrated approach be applied to the farm bill statement of purpose. Our farm economy, our soil, our water, and wildlife resources are at stake.

During the past year the association and many other concerned natural resource organizations have been studying the farm issues in anticipation of the development of an omnibus farm bill. As a result, we recently provided testimony supporting strong sodbuster and conservation reserve measures to the House Agriculture Subcommittee on Conservation, Credit, and Rural Development and to the Senate Agriculture Committee. But we also want to appeal to this subcommittee to incorporate those conservation measures, including cross-compliance, into the commodities titles.

In the 1980 farm bill, resource conservation was a separate title, none of which was effectively implemented. We would like to see each commodity title include the following measures:

First, measures to prevent the tillage of highly erodible lands that have never, or at least not in the last 5 years, been used to produce commodities, commodities that are already in surplus. Those who fail to comply should be ineligible for commodity support payments and any other Federal farm program benefits.

I think that I can also state here that we would be in favor of incorporating wetlands into that measure.

Second, we would like to have provided for a multiyear conservation reserve contract, using a bid process with 5-to-10-year-or-more set-asides of approximately 30 million acres, something on the order of about 20 percent of the current base acreage for commodity production. This reserve is consistent with historic set-asides and should target lands that are erosion prone.

There must also be provisions that cover crops be planted on these lands to prevent erosion and to provide wildlife habitat where appropriate.

Previous set-aside programs with only year-to-year contracts were too short and unpredictable to allow for the establishment of cover crops. Often landowners had insufficient leadtime to produce cover crops. Consequently, these past set-aside programs had no positive benefits to control of erosion, nor to providing wildlife habitat.

Third, we would like to see the titles include promotion of a land resource ethic within the farm bill, and that it address the many resources impacted onsite and offsite by farm management practices. This can be accomplished by including water quality, wildlife, fisheries, and recreation professionals in local farmland set-aside decisionmaking processes.

Fourth, encourage landowners to manage their conservation reserves for long-term economic benefits, such as for tree production or for public recreation, charging fees for access. This would also be a factor in the bid process that I mentioned earlier.

In summary, the association and our colleagues are convinced that the above programs are an advantage to the farmer, to wildlife, and to the generations to come who will also depend on these basic natural resources.

We urge the development of a farm bill that integrates these concepts into each commodity title.

Thank you.

[The prepared statement of Ms. Goodman appears at the conclusion of the hearing.]

Mr. DASCHLE. Thank you, Ms. Goodman.

Mr. Weiss.

STATEMENT OF DANIEL WEISS, WASHINGTON REPRESENTATIVE, SIERRA CLUB

Mr. WEISS. Thank you, Mr. Chairman.

My name is Daniel Weiss. I am a Washington representative with the Sierra Club.

I would like my statement to be submitted in full in the record.

Mr. DASCHLE. Without objection.

Mr. WEISS. The problems facing the American farmers, one of the greatest problems is the drastic drop in commodity prices. One of the causes of this is the great increase in the amount of land that has been cultivated over the past dozen years or so.

Since 1971, there has been a 15-percent increase in the amount of land that has been cultivated, an area about the size of the State of Nevada. This has also been at the root of the great crisis we have in soil erosion and wetlands conversion.

During the seventies, an estimated 20 percent of the 2 to 3 million acres of land brought into production every year was highly erodible. Right now about a quarter of our cropland loses at least twice the tolerable rate of soil.

As you can see on our map over here, the States that lose the most on their highly erodible acres are in purple and orange [indicating chart], including both Iowa and Missouri.

For instance, in the Palouse region of Washington State, they lose 5.5 bushels of soil for every bushel of wheat grown. In Iowa, they lose about 2 bushels of soil for every bushel of corn grown.

Erosion costs the farmer money in two ways. First of all, erosion reduces yields. In the Palouse region the yields are 25 percent lower than they would be if there was not erosion. Second, it costs them money in lost fertilizer, they need to apply more water, et cetera, at an estimated cost of at least $625 million a year.

The conversion of lands in the seventies included wetlands as well. Nationwide half of our wetlands are already gone. The Congressional Office of Technology's assessment estimated that four out of five or our wetlands that are destroyed are converted to agriculture. These lands are often converted to grow crops that are already in surplus, like wheat and soybeans, which just depresses prices further.

The Sierra Club urges the Agriculture Committee to end supporting for plowing out of highly erodible lands not cultivated since 1980 and also to end the conversion of wetlands to cropland.

One of our great concerns about the sodbuster provision passed by the House last year is that it would exempt some lands that were plowed out, highly erodible lands that were plowed out of the 1970's which may not be in production right now.

For instance, if you will turn to the second picture attached to my testimony, it is a picture of Colorado rangeland in 1977 that is eroding highly because it was tried to be converted to wheat. This land would be excluded from any sodbuster protections under the bill passed last year. We would like to see the law changed so that only lands cultivated since 1980 are exempt from sodbuster penalties.

In addition, folks who plow out highly erodible lands that have not been farmed since 1980 should become ineligible for all Federal farm programs for their entire operation, not just on the lands where the crops are grown.

Second, like Mr. Daschle, we urge that a swampbuster provision be added to the 1985 farm bill that would deny Federal farm program benefits to farmers who drain, fill, or otherwise convert wetlands to croplands. Our current policy that allows people who drain or convert wetlands to become eligible for Federal commodity programs rewards farmers who destroy our resources and penalizes our farmers who do not fill in these areas, these wetlands.

It penalizes them in two ways. No. 1 is it depresses prices for everybody by increasing production. No. 2 is the farmers who protect these areas right now suffer because their crop bases are reduced. The system is backward.

We ought to deny program benefits and deny increased crop base to people who fill their wetlands, and thereby help folks who do conserve wetlands.

Finally, a 30-million-acre conservation reserve ought to be created to convert these highly erodible lands that are already under production to a long-term, sustainable use like pasture or timber. I would like at this point to associate my remarks with Mr. Gray and Mr. Cook in this area.

Also attached to my statement is a copy of testimony delivered by Congressman Howard Wolpe of Michigan before the Conservation Subcommittee of the House Agriculture Committee on April 4. Mr. Wolpe delivered this testimony on behalf of 25 key environmental leaders in Congress, including Representatives Udall and Seiberling.

This testimony expresses their concern about including the toughest possible sodbuster, swampbuster, and conservation reserve provisions in the 1985 farm bill.

In conclusion, we urge the Agriculture Committee to make changes in the farm bill that both end support for environmental damage like sodbusting and swampbusting, and also help cut production [illegible] those marginal lands that ought not to be farmed. It hopefully will have a price-enhancing effect that will help our farmers, too

Thank you very much. I will be happy to answer any questions.

[The prepared statement of Mr. Weiss appears at the conclusion of the hearing.]

Mr. **Daschle**. Thank you, Mr. Weiss.

Mr. Pender.

STATEMENT OF JOHN PENDER, AGRICULTURAL POLICY ANALYST, BREAD FOR THE WORLD

Mr. **Pender**. Thank you, Mr. Chairman and members of the committee.

I am John Pender, agricultural policy analyst for Bread for the World. Bread for the World is a nationwide movement of over 47,000 Christian citizens working for public policies to help end hunger. We appreciate this opportunity to express our opinion on grain policies.

Policies which affect the supply and price of grain are very important to hungry people and farmers throughout the world. Grain reserves are particularly important. Without adequate reserves to draw upon, food shortages are inevitable when grain production falls short of demand. When this happens, those who suffer the most are those who can least afford to pay higher prices.

In the early 1970's many thousands of people went hungry or died after changes in grain policies of some governments and a worldwide shortfall in grain production led to grain shortages and a tripling in grain prices.

The price boom which occurred then, while helping farmers in the short run, probably has hurt farmers in the long run by contributing to the overall inflated expections of the 1970's which have been a major source of the problem in the 1980's.

Grain policies can also have a substantial impact upon food aid. Large grain surpluses in the 1950's and sixties contributed to a large flow of food aid, sometimes to the detriment of agricultural development in recipient nations.

In the early 1970's, when policies changed and grain surpluses were reduced, food aid was reduced by a factor of two-thirds in a period of 2 years, at a time when many nations were suffering severe food shortages.

Today, as grain surpluses have returned, some have suggested increasing grain food aid as a means of disposing of surplus. Bread for the World believes food aid should be carefully provided on the basis of need rather than on the basis of surplus. Food aid is not the appropriate vehicle to absorb surpluses and shortages in agricultural production.

We believe well-managed Grain Reserve and Grain Supply Programs are critical both to prevent surplus accumulation and to protect against supply shortages. Such programs would not only help to preserve the integrity of food aid and promote food security, but also to promote stability in the rural economy and conservation of agricultural resources.

To serve these objectives, Bread for the World seeks reauthorization and replenishment of the food security wheat reserve, reauthorization of the farmer-owned grain reserve, reforms in the farmer-owned reserve which will provide for adequate but not excessive carryover stocks, and better coordination of supply management with reserve policies in a manner which promotes food security, stability in the farm economy, and conservation of agricultural resources.

The food security wheat reserve is needed to insure that the United States can meet food aid needs when supplies are short. Part of this 4-million-ton reserve has been made available for famine relief in Africa. This reserve needs to be replenished in order that we can continue to be able to provide food aid according to need and for emergency needs.

The farmer-owned reserve is needed to insure reliable grain supplies in the world market and to promote stability in the rural economy. In 1983 U.S. corn production fell by 50 percent, largely as a result of a severe drought, and only by drawing heavily upon farmer-owned reserve stocks was a major shortage avoided.

Corn released from the farmer-owned reserve accounted for more than one-third of total U.S. corn supply in late 1983 and early 1984. Without this reserve, livestock production would have been much more severely disrupted, food price inflation would have increased, and corn exports would have suffered.

While Bread for the World seeks to have this program reauthorized, we recognize that there are problems that need to be reformed with the program. In recent years the farmer-owned reserve has been misused as an alternative to Acreage Control Programs through support prices. Excessive reserve stocks accumulated in 1981 and 1982 and then were rapidly depleted by the largest Acreage Diversion Program in history in 1983. This approach jeopardized the security of food supplies, created havoc in the rural economy, and was enormously expensive.

We are proposing that the farmer-owned reserve be used to insure an adequate but not excessive reserve stock in the United States. If total U.S. carryover falls below a minimum level necessary for food security, farmer-owned reserve incentives should be used to promote rebuilding of stocks to an adequate level.

On the other hand, if carryover stocks exceed the maximum desirable level, incentives encouraging storage in the farmer-owned reserve should be kept to a minimum. By limiting the use of farmer-owned reserve incentives in this manner, adequate but not excessive reserve levels would be provided for.

Bread for the World believes that the minimum carryover needed for food security is about 20 percent of total annual use for wheat and about 12 percent for feed grains. The maximum reserve promoted by the Farmer-Owned Reserve Program should not be more than twice these levels.

These reforms would make the Farmer-Owned Reserve Program more effective and less costly. Storage payments to farmers would average about $300 million a year, much less than the cost of these payments in 1982 and 1983.

In addition to these changes in the farmer-owned reserve, Bread for the World believes Grain Reserve Programs should be better coordinated with supply management policies. We are proposing that some cropland be held in reserve when supplies are excessive to reduce surplus accumulation and recession in the farm economy.

This cropland should be taken out of the reserve when supplies are less plentiful and reserves are low. The administration of the program could be based upon the same target levels of carryover used for the farmer-owned reserve program. Thus, if carryover levels are above the maximum desirable carryover, some cropland would be held in reserve but would be released if carryover levels were reduced to less than the minimum target.

Such a cropland reserve program, together with the reforms in the farmer-owned reserve, would help to insure a reliable supply of grain and reduce the boom-and-bust cycles in agriculture. It would also contribute to resource conservation, particularly if priority is given to conservation benefits in choosing land for this reserve.

Thank you, and I would be willing to answer questions.

[The prepared statement of Mr. Pender appears at the conclusion of the hearing.]

Mr. DASCHLE. Thank you, Mr. Pender. I wish more members would be here to have heard your testimony. It was excellent. My apologies, once again, for interchanging the panels.

Mr. Stangeland.

Mr. STANGELAND. Yes. I, too, want to commend on some excellent testimony. I guess, Mr. Pender, much of what you say has a great deal of substance. I would differ with you just a little bit on your statement, earlier in your statement where you say in the early seventies policies of some governments and the world shortfall led to tripling in grain prices. I do not know exactly what area you are referring to. I do not think they tripled here. However, the runup in prices did overinflate the expectations, as you state, that is part of the root of the problem we have today. It is not all of the problem but part of it.

I am sure you heard some of the testimony earlier on some of the problems in the reserve and what it has caused us. I think you might well submit for the committee at a future time what you think are adequate but not excessive reserve stocks, because I think that would be interesting for us to know where that adequate level lies.

I expect to have some kind of a reserve, but certainly not to the extent we have. I am kind of sorry that some of our purchasing or some of the countries who need the food do not take it on themselves to supply their own reserve rather than expect the U.S. Government, the U.S. farmer to maintain that reserve against worldwide food shortages. I think we have to do that, but I wish they would share in that with us.

I really do not have a question for you, except that if you want to provide for the record what you think might be an adequate reserve as opposed to an excessive one, that would be interesting.

To Mr. Weiss and Ms. Goodman, it was excellent testimony. There is no question that we have to be concerned about conservation and more concerned than we have been in the past. We have had a Soil Conservation Service—and I am a lifelong farmer—that has had times when there were runups of success later to fall back.

At one time it took a long time to convince people to terrace and strip crop. With changing technology now, terracing and strip cropping perhaps do not fit in some of the areas that they ought to be utilized, because of the larger operations. Now we see stubble mulching, which is coming in, and minimum tillage—very effective certainly, but we are only beginning in that area because of larger equipment, equipment more suitable to that kind of farming practice. We have to do more of it; there is no doubt about it.

Mr. **Weiss**. Mr. Stangeland, one of the problems in past soil conservation programs has been the efforts have not been targeted to the lands with the very worst erosion problems. These are lands that lose 10, 15, 20—in your State the highly erodible acres I believe lose about 15 tons per acre.

Conservation tillage and these other practices may reduce that some, but in fact there is about 40 million acres, about 10 percent of our farmland, that is so erodible it ought not be farmed now.

What the conservation reserve would do is help these farmers make a transition from in these acres from a nonsustainable use, which is cropland with high erosion, to a more sustainable use—pasture, rangeland, trees—and get that into a use that has both economic benefit to them and makes environmental sense.

In addition, another side benefit of that is that it puts some cash in their hands right now when they need it.

What we need to do is we need to focus our efforts on the most severely eroding cropland. Past programs have sort of spread the money around, and a lot of it has gone to places where it is really not as much of a problem as in other places.

Mr. **Stangeland**. Ms. Goodman, there is something I would like to have you look at just a little bit perhaps. It is a problem that I have in my congressional district. I am a duck hunter and a pheasant hunter, and I love wild game. I have watering pits and areas on my farm that are not farmed, just left in a wild state for the wildlife. I have eight shelter belts on the farm to attempt to prevent wind erosion.

However, we have a situation in Minnesota in the Seventh District where we have perpetual easements, where a farmer had been farming and marginally farming. He would farm the land and he would plant what was dry enough to plant in the spring; he would harvest what was dry enough to harvest in the fall, and then be happy with what he had.

He came into a period of time when he is ready to retire. He had had an existence and not much more. The Government came in, offered him a price of $1,500 or $2,000, which was big money in those days—this goes back 10 or 15 years ago, maybe even 20. In exchange, he would allow a perpetual easement placed on that land to a point where it could not be drained, filled. There were very rigid restrictions.

In the meantime, a younger farmer has gone in and bought that land, and he cannot survive in the present farm economy farming it the way the old farmer had farmed it. Therefore, we have some excellent land, and the farmer does not want to drain the wetlands, but with irrigation, center pivot irrigation, he can farm it and he can do a fairly good job of making a good living.

However, because of no fill, he cannot put a walkway through the wet area. Now he does not want to drain that wet area. He wants to leave it, but he wants a walkway. Fish and Wildlife is just intransigent as far as any change, forcing the farmer to comply with provisions that were written 20 years ago when the farming practice was totally different.

I would like to have your fish and wildlife people look at that as one way that—I have been working with the Federal Fish and Wildlife, and it is mostly Federal, not State lands—to try to resolve that problem, to allow them to have production agriculture at a profit and still maintain the wetlands and the habitat for wildlife.

If you would look into that, I would appreciate it.

I think your testimony is very good.

Ms. GOODMAN. I would be glad to do so.

If you would like to perhaps give me a staff name, I would be happy to get back with them.

Mr. STANGELAND. Bill Toops of the Agriculture Committee staff. He is on the subcommittee staff for Cotton, Rice and Sugar.

Thank you.

Mr. DASCHLE. Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

I would also like to thank the panel for their excellent testimony.

I would like to go to the conservation set-aside, the long-term set-aside subject for just a moment.

All of you talked about focusing on the erodible land, the highly erodible land, and taking it out of production. I generally agree with this. I am a strong supporter of that concept of that reserve.

I wonder what your reaction would be to making some provision in the law, however, that allowed areas that have some special problems, as determined on a local basis, to be added to eligibility for the program. The one that I will use as an example, which occurs in several counties in my district, is some rather extensive areas where the soils are thin. Those thin soils overlie high fractured limestone structures, lots of sink holes. There are aquifers that are not very far down. You have a leaky situation as far as farm pesticides, nitrates, and things of that kind are concerned.

Would you be willing to support some provision that, if the local conditions were important and it was a serious problem in that area, that some other areas than just strictly highly erodible lands might be included?

Mr. WEISS. Mr. Evans, the way I think we would like to see it work is this: there is quite a bit of highly erodible land out there.

Mr. EVANS of Iowa. Yes.

Mr. WEISS. Once you have set that at minimum as severely eroding acre level, then within that we would like to target the money and give highest priority to just those kinds of acres that you are talking about where there are extreme offsite impacts from farming that land, whether it be polluting a recharge zone of an aquifer, whether it be intensive agricultural runoff, whether it be upland areas that are eroding into a wetland, for instance.

Within this body of highly erodible acres, which is about 40 million acres—and I think it is about 25 percent in your State that are highly erodible—then we definitely agree we would like to see priority given to those that could prevent offsite damages, should they be converted to some other use.

Mr. **Evans** of Iowa. But you would like to stick within the framework of highly erodible as the frame?

Mr. **Weiss**. My guess is, sir, that for the most part—not in every case but for the most part—those acres probably line up pretty well because there is so much highly erodible land out there, 1 out of every 4 acres.

Mr. **Evans** of Iowa. To move to a different subject, and it relates somewhat to Arlan's comments, that sometimes we write legislation in such a firm and inflexible manner that it does not accommodate some of the practical aspects of everyday life.

I do not know whether this is true of some of the proposed sodbuster legislation or not, but I am a little bit concerned—and I would hope that as you go through this you would examine the possibilities of doing great harm perhaps to some landlords who are damaged by a tenant, particularly under cash rent situations where that landlord may be well removed from the area and may not be paying a great deal of attention to what is going on.

I would hate to see landlords of that type permanently harmed by some of the provisions of sodbuster legislation and not have any recourse or remedy. I hope that you will think a little bit about this.

I think we are going to do some sodbuster legislation, I really do. I hope we do not swing the pendulum too far and cause a problem for some innocent people out there as a result of that.

Mr. **Weiss**. Two things, Mr. Evans: No. 1 is we would like to see an appeals process within the sodbuster provision. No. 2 is the Sierra Club's soil and water conservation package, which is outlined in my testimony, was developed by Sierra Club members who are farmers. In particular, our chairman owns his own operation. Another fellow from Nebraska was just in here this week testifying on the Senate side, and he is a tenant farmer. They have been working with us to develop these proposals, so that it avoids that problem of looking great on the blackboard but not being able to be built in the lab.

Mr. **Evans** of Iowa. Thank you.

Mr. Pender, I am curious about the farmer-owned reserve, one aspect. I think I understand what you say, but usually they have release mechanisms that are based upon price movements. I do not think you addressed that.

Do you have any thoughts on how that should work? I can go further in explanation if you are not sure what I am talking about.

Mr. **Pender**. I am familiar with the release mechanism. Bread for the World supports continuation of that safety valve, if you will. When prices are above a certain level, that there should be some provision for release of that grain from the reserve.

Mr. **Evans** of Iowa. Would you have any objection to its being an indistinct—I will use that term—level of release? Let me give an example. At above a certain price, the farmer may sell it. He can have access to it again. If it moves up another step, he stops getting storage payments but he can still keep it if he wishes to do so. If it moves up a third step, he begins to pay interest on the loan but he still does not have to release it perhaps. Finally, maybe there is a fourth step where he must bring it out on the market, so that there is not this very distinct target that the major grain traders and our foreign competitors can shoot at and say, "Hey, that is going to be the trigger price at which a very definite thing happens."

Do you have any objection to that sort of an arrangement?

Mr. PENDER. No, I wouldn't. I think we have looked at that some, and the idea of a staggered release is something that Bread for the World is supportive of.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

Mr. PENDER. May I respond, Mr. Chairman, to the question of Mr. Stangeland?

Mr. DASCHLE. Sure.

Mr. PENDER. I am sorry that he is not here, but in my testimony I mention that we would like to see the reserve entry incentives linked to the total carryover stocks in the United States, so that if total carryover of wheat, say, is less than 20 percent of annual use, which would be about 500 million bushels, then we believe that incentives of the farmer-owned reserve should encourage storage in the reserve to bring the reserves up to an adequate level.

We think that basing reserve incentives on total carryover makes sense because, if you just put a cap or a minimum on the basis of the farmer-owned reserve, it does not take into account the other reserves that you have in the country.

Mr. DASCHLE. Thank you, Mr. Pender, Mr. Weiss, and Ms. Goodman. We appreciated your testimony very much.

I want to publicly acknowledge the presence of some important people in the room right now. They are South Dakotan, part of the Farm and Land Brokers Institute. My apologies to them. I have made them wait for more than an hour: Wayne Nelson, Less Miller, and Don Corkle. They are here from South Dakota and very interested in this issue as well.

We are delighted you are here.

With that, we are going to recess until 2 o'clock this afternoon.

[Whereupon, at 12:50 p.m., the subcommittee recessed to reconvene at 2 p.m. the same day.]

AFTERNOON SESSION

Mr. EVANS of Illinois [acting chairman]. The hearing will come to order.

We would like to welcome Congressman Hal Daub as our first witness in the afternoon.

We will let you proceed, Congressman, as you wish.

STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. DAUB. Mr. Chairman, I appreciate this opportunity to testify before the Subcommittee on Wheat, Soybeans, and Feed Grains of the House Agriculture Committee.

I do have a prepared statement. I will move through it in a rather careful way. I recognize the subcommittee will have a time constraint relative to the potential for a vote here shortly.

I might ask that a copy of a summary of the major provisions of the farm bill which I introduced today on the floor of the House be included in the record.

Mr. EVANS of Illinois. Without objection, so ordered.

Mr. DAUB. Maybe you would like to give the chairman a copy as well, if you would. If you would do that, I would appreciate it.

Mr. Chairman, members of the subcommittee, I am pleased to have this opportunity to appear before you today to offer my views on the 1985 farm bill.

We are facing a watershed year for American agriculture. It is also a watershed year for the family farm. The American farmer is in a financial vice grip. He is squeezed by high costs for inputs and low prices for outputs; by high interest rates and plunging land values; his share of world markets has been shrinking because of a strong dollar coupled with unfair foreign competition from subsidized exports.

The family farm cannot survive much more of the current Federal policies.

Today I introduced H.R. 2112, the Agriculture Trade, Food and Fiber Act of 1985. This is a comprehensive farm bill which is geared toward one central goal: restoring profitability to agriculture. It will retake and expand American commodity markets abroad and, at the same time, maintain an agricultural safety net to set American farmers on a path of growth, opportunity, and profitability.

The proposal will, and I summarize:

First, put teeth and dollars into our export policies to retake markets lost to unfair trading practices of competitors.

Second, initiate flexible price supports to regain lost world markets and reduce price-crushing surpluses at home while maintaining a safety net for farmers under financial stress.

Third, change the tax laws to reduce the tax benefits of sheltering nonfarm income with farm losses.

America enjoys a huge comparative production advantage over the rest of the world, especially in Nebraska's three main export crops: corn, soybeans, and wheat. This is largely because of our natural resources and the farmers' skillful blending of technology and capital. Yet, this advantage is being stripped away unfairly.

Our products too often move only after other countries' stocks are sold. The American farmer can compete and win at the export game, but it must be a fair fight. He cannot face foreign export subsidies and trade barriers alone.

There has been enough talk about unfair trade, it is time to start carrying a bigger stick.

The export portion of my proposal includes a battery of weapons to fight unfair trade. It contains an intermediate credit initiative providing approximately $1 billion annually in direct credit financing or credit guarantees for the years 1986 to 1991.

An export Payment-In-Kind Program is also proposed to enhance foreign sales of American farm products. This program will increase farm prices in two ways. First, by giving a bonus from Government-owned commodities, foreign purchasers will given a greater incentive to, if you will, "buy America." In the process, Government stocks will be liquidated removing their price-depressing effect.

As harmful as other nations' unfair trading practices are, we must recognize that we have shot ourselves in the foot on exports with rigid Government commodity programs. Our inflexible price supports have set a price floor on American commodities which enables foreign competitors to undersell us with the aid of their subsidies. This has actually increased competitive production overseas. It has also led to the accumulation of price-depressing surpluses at home.

If we do not move to flexible price supports, American agriculture is headed for what I think would amount to a permanent PIK Program. Under these circumstances the American farmer will see continued deterioration of his markets abroad together with mounting surpluses at home. Frustrations for both producer and taxpayer will grow. In an attempt to control program costs and dispose of price-crushing surpluses, the Government would again return surplus commodities to producers and decrease production. PIK and its disastrous shock waves for rural America will be relived.

This scenario, as we have seen, means the loss of farmers, the loss of equipment dealers, the loss of rural banks, the loss of seed and fertilizer dealers, and much of what makes up our rural society.

Omaha, the major city in my district, is a financial, processing, and export center for agriculture. Make no mistake about it, Mr. Chairman, an agriculture economy in decline means shrinking urban economies across the Nation, particularly for places like Omaha.

To restore needed flexibility in price supports, my proposal sets loan rates between 75 and 85 percent of a 5-year moving price average after the low and high years are discarded. However, unlike the administration bill, my proposal will preserve target prices well above market rates, insuring that adequate income support payments are retained.

As critical as it is for America to have products in overseas markets with flexible price supports, we cannot end 50 years of Government agriculture regulation overnight. The change to more flexible policies must be cushioned by measures to provide for a smooth and orderly transition. An adequate safety net will be maintained.

My proposal also reduces the tax benefits of sheltering nonfarm income with farm losses. Under current law, bona fide farmers and ranchers compete with operations that are more interested in, as we have now often heard our colleagues say, farming the tax laws rather than farmland. These practices make small and medium sized farmers less competitive and add to already burdensome price-depressing surpluses.

One provision of my bill reduces the incentive for tax sheltering by repealing the rapid depreciation method for single-purpose agricultural structures. The current depreciation allowance has been used extensively in the pork industry. It has created disadvantages for small and medium pork producers in two ways.

First, larger operations receive larger tax benefits. This provides supplemental capital for reinvestment, placing smaller operators at a competitive disadvantage.

Second, current law stimulates additional production, thereby lowering price at market. These lower prices hit small and medium producers the hardest. Elimination of the provision should go a long way toward leveling the competitive field among different sizes of operators and eliminating incentives for overproduction.

The conservation title of my bill incorporates legislation that I have previously introduced. These provisions require USDA to enter into long-term soil conservation contracts with producers cultivating what we now call highly erodible or erodible land or soil. It offers cash payment or a payment-in-kind, if you will, for removing erosive cropland from production and applying conservation practices.

The bill also makes producers using highly erodible land ineligible for Government programs, much like the sodbuster concept, but I think my draftsmanship pays a little more attention to land ownership rights than does the conventional sodbuster bill offered by some Members of the other body.

Finally, producers must be encouraged to use sound conservation practices determined by local soil and water conservation districts in order to participate in the commodity programs.

It has been said that the best farm bill wouldn't have the word "farm" in it. It would be a bill that reduces overall Government spending and interest rates. With every 1 percent drop in the interest rate, $2 billion is left in the pockets of our folks in production agriculture.

Mr. Chairman, the plight of the farm economy with the stress and dislocation that it has brought to rural America and the ominous consequences a depressed agriculture holds out not just for rural America, but for the rest of our Nation's economy makes enactment of a new, what you may want to call, farm bill or farm legislation this year with a longer set of years in it I think imperative. Mere extension of existing law, of course, will not be sufficient. The 1985 farm legislation must aggressively promote exports, move away from Government interference in the marketplace, and preserve a safety net for farmers that are now under financial stress.

I want to thank you for your attention.

[The attachments follow:]

MAJOR PROVISIONS
OF
REP. HAL DAUB'S 1985 FARM BILL PROPOSAL

Recent experience shows that our present agricultural policies, particularly when combined with high interest rates driven by bloated government spending and periodic embargoes, are simply not working.

This proposal is geared toward one central goal: restoration of profitability to agriculture. It will retake and expand American commodity markets abroad and, at the same time, maintain an agricultural safety net to set American farmers on a path of growth, opportunity and profitability.

EXPORT POLICY

*The expenditure of $1 billion annually is mandated for direct and/or guaranteed intermediate export credit. Loans could be made or guaranteed for periods of 3 to 10 years. Assistance is targeted to countries previously receiving assistance under title I of P.L. 480.

*The Secretary is authorized to establish and carry out an export payment-in-kind program using CCC surplus commodities. All previously uncommitted CCC surpluses may be used in this program.

*Future export PIK, blended credit, and emergency food relief activities are exempted from cargo preference requirements.

*The Secretary is required, in fiscal years 1986-1988, to use at least $325 million of CCC funds annually or an equal value of commodities for export activities to assist in the export of U.S. agricultural commodities adversely affected by credit subsidies or other unfair trade practices of foreign countries.

*The "Food for Progress" proposal of the Keating Commission is included, authorizing the President to offer multi-year commitments of U.S. surplus commodities as a bonus to less developed countries which agree to reform failed agricultural policies. The bonus would serve as a buffer to ease the transition to policies which allow their farmers access to competitive markets and provide them with adequate price incentives to produce food for the country's domestic needs.

*P.L. 480 is extended and also reformed to allow the U.S. to accept payment for commodities in local currencies. The U.S. could then reloan that foreign exchange to financial intermediaries to fund loans for private investment in those countries.

COMMODITY PROGRAMS

Wheat, Feed Grains, Cotton, and Rice

*To restore needed flexibility in price supports for wheat, feed grains, cotton, and rice, this proposal sets loan rates between 75 and 85 percent of a five year moving price average after the low and high years are discarded.

*Unlike the Administration's bill, target prices will be preserved well above market rates insuring that adequate income supports are maintained. Target prices will be set at 110 to 125 percent of the loan rate.

*To target benefits where they are needed most, a payment limitation is retained. This limitation is set far above the limitation contained in the Administration's bill. It will equal the mean family income of the previous year. This would have been about $25,000 in 1983. Note that if this limitation were in place in 1983, the year of the largest payments on record, only 2% of Nebraska's farmers would have received smaller payments.

*Authority for set-asides, acreage limitation and paid diversion is continued. Multi-year paid diversion contracts are authorized when cost-effective.

*Compliance with sound conservation practices is required as a condition for program participation.

*Early entry into the farmer owned reserve for wheat and feed grains is prohibited and interest waiver authority in the case of reserve loans is eliminated.

*Current restrictions on the removal of grain from the farmer owned reserve are eliminated.

*No limit is placed on the amount of CCC commodity loans a producer may receive, but the repayment of interest is required -- regardless of loan repayment or forfeiture.

Soybeans

*The current soybean price support program is extended for the life of the bill. This provides loans at 75 percent of the average price received by farmers for the preceding 5 years, removing the high and the low years. Soybean producers are not subject to production adjustment programs, nor eligible for a reserve program or storage payments.

Dairy

*The dairy price support level is set at $11.60 per hunderweight for fiscal year 1986, and in following years the Secretary will set the price support according to estimated government purchases for the year. Reductions in the support price are authorized until government purchases are stabilized between 2 and 4 billion pounds annually.

Tobacco

*Set loan rates between 75 and 85 percent of a five year moving price average after the low and high years are discarded.

AGRICULTURAL TAX REFORM

*Reduces the tax benefits of sheltering nonfarm income with farm losses. Under current law, bona fide farmers and ranchers compete with operations that are more interested in farming tax laws rather than fields. These practices make small and medium family farmers less competitive and add to already burdensome price depressing surpluses. This proposal:

--In computing the alternative minimum tax for noncorporate taxpayers, farm deductions are included as a tax preference to the extent of nonfarm income where the taxpayer does not derive over 70% of his gross income from farming.

--In computing the minimum tax for corporate taxpayers, farm deductions are included to the extent of nonfarm income where the corporation does not derive over 70% of its gross receipts from farming.

*Reduces the incentive for tax sheltering by repeal of the rapid depreciation method for single purpose agricultural structures. The current depreciation allowance has been used extensively in the pork industry. It has created disadvantages for small and medium pork producers in two ways. First, larger operations receive larger tax benefits. This provides supplemental capital for reinvestment, placing smaller operators at a competitive disadvantage. Second, current law stimulates additional production thereby lowering price. These lower prices hit small and medium producers the hardest. Elimination of this provision should go a long way toward leveling the competitive field among different sizes of operators and eliminating incentives for overproduction.

CONSERVATION

*Long term soil conservation contracts with producers who are cultivating "highly erodible" land (Classes IVe-VIII).

*Producer incentives in the form of cash or payments-in-kind (in years of CCC surpluses) for removing erosive cropland from production and applying conservation practices.

*A "conservation participation bonus" program which encourages better regional producer participation in soil conservation programs by allowing the Secretary of Agriculture to supplement contract payments with a bonus when all producers in a "special problem area" enter into the program at the same time.

*Farmers who produce commodities on highly erodible land are made ineligible -- as to any of that commodity -- for government benefits, including price supports, income assistance, production adjustment payments, loans for construction or purchase of storage facilities, Federal crop insurance, Federal disaster payments, and FmHA loans. Exemptions are extended to those who produce according to an approved conservation plan and those who have begun production on such land during the past 12 years.

*Producers are required to use sound conservation practices determined by the local soil and water conservation district as a condition to receiving any farm commodity program benefits.

RESEARCH AND EXTENSION

The changes made in research, extension, and teaching programs have a two-fold purpose: 1) to maintain the position of the United States as a leader in technological advances, thus preserving our competitive advantages; and 2) to direct the efforts of the Federal government in agricultural research toward family-size farmers who are most in need of these efficiencies.

These modifications are consistent with the overall emphasis in the bill on U.S. competitiveness in world markets and the encouragement of family-size farms.

*One-half of the Extension special project funds must be used by the Extension Service for delivery of agricultural technology to benefit small and moderate-size family farming operations.

*The bill expresses the sense of Congress that research, extension, and teaching activities relating to agricultural technology should emphasize development, application and transfer of technology to benefit small and moderate-size family farming operations.

*A portion of existing agricultural research funds are redirected to allow and encourage participation of the private sector in agricultural technology research through a new matching grant program.

*At least one-half of the funds appropriated for applied research under the competitive research grant program must be used for research benefitting small and moderate-size family farms.

*Competitive research grants must be matched by funds from non-Federal sources equal to 20 percent of the grant.

*The Administration's biotechnology initiative is encouraged, and the USDA is designated as the lead agency for establishing and coordinating regulations for the development and use of biotechnology in agriculture.

FOOD PROGRAMS

These program changes are designed to target benefits to those recipients most in need and control program costs.

- *States are given the option of receiving a block grant to operate a nutrition assistance program for low-income citizens in lieu of operating the Federal food stamp program in that state.
- *A national workfare program for able-bodied food stamp recipients is mandated.
- *Program administration is tightened to remove opportunities for fraud and abuse.
- *The purchase requirement is reinstated, (except for elderly or disabled recipient households) to sharpen the nutritional focus of the food stamp program.
- *Recommendations of the Grace Commission are adopted, including elimination of duplicate benefits, such as the overlapping with the school lunch program.

Mr. EVANS of Illinois. Thank you, Hal, for your very comprehensive proposal. We will take a serious look at it as we consider the multiyear bill.

I think you are absolutely on point pointing out the impact of these tax provisions on farming, and I think that is something that, if it is not within the jurisdiction of the committee, we need to look at throughout consideration of whatever tax changes we may pass this year in terms of its impact on agriculture.

Mr. DAUB. I notice that my colleague, Mr. Dorgan, was to testify, Mr. Chairman, as a more senior member of the Ways and Means Committee than I. These ideas will be referred to that committee, and we want to pledge to you and to members of this subcommittee that we are going to be very interested in taking a look, a fair and balanced look, at the incidence of what happens when you take off-farm profits that once upon a time used to be attracted to our production agriculture base for a long-term use that provided a stable rate of interest, and that same rule now in a deregulated money market with Euro-dollar and petro-dollar attractiveness now brings that off-farm profit only into farming temporarily for a hog confinement operation or a cattle operation to be built, to garner a loss to write down the off-farm profit to a no-net tax return. That has to be stopped.

Whether it is by the use of a limitation on the alternative minimum tax, as I would propose, or some other features, I think that we can get back to attracting capital at a longer term and more stable rates by taking away the opportunity for a widget profit in New York City to come back to Iowa or Nebraska for use in what I consider to be a very abusive way.

Mr. EVANS of Illinois. The gentleman from Iowa?

Mr. EVANS of Iowa. Thank you very much, Mr. Chairman.

I, too, want to compliment you for your testimony and your work in this area. I think it is extremely interesting.

I am particularly pleased to see some members of the Ways and Means Committee begin to look at the problems of agriculture. For a number of years here those of us on this committee have puzzled over how we could approach some of the problems of agriculture that are beyond the jurisdiction of this committee by virtue of the fact that they are under the jurisdiction of Ways and Means. I am just delighted to see you taking the lead in this field.

I would also say to the gentleman from Nebraska, I hope that along the line the Ways and Means Committee will look at some of the tax problems that are evolving out of restructuring of debt, where the tax laws are creating problems that were not, I think, contemplated by those who drafted those laws and wrote the regulations, and are in some instances making it virtually impossible for people to restructure their debts. I think the Ways and Means Committee should look at possible ways of providing some kind of relief under those circumstances.

I also commend you for your three words I heard you say about land ownership rights under sodbuster bills. This is something that has concerned me. I am not sure that a lot of the environmental interests have paid enough attention to that.

I used the example this morning—and it is only one—that is a bit of concern to me. That is particularly where you have an owner-tenant arrangement under a cash rent situation where that owner may be absent or elderly and does not pay a lot of attention. I would hope that there are going to be provisions in any such law that give some recourse to a person that is innocently harmed by a tenant in doing something that is contrary to sodbuster legislation. I think maybe that has been overlooked up to this point.

Again, thank you very much for coming before the subcommittee.

Mr. DAUB. Mr. Evans, if I might say just a brief remark, as I notice the bells have sounded—sort of like the Pavlovian response around here; you know, we get used to bells and the buzzers and only hope when we get through the tunnels that there is cheese on the chair when we get there.

The idea of it is that the sodbuster thing, I think, has an appropriate purpose. If you want to buy a Toyota or if I do, that is OK, but to use taxpayers' dollars to buy the Toyota for a Government official to drive is rather counterproductive relative to the system biting the hand that feeds it.

I think the same thing ought to be said of the concept. The sodbuster concept is something I think we can all agree on. Where we are loaning money to people to produce on Class IV to VIII erodible soil is rather counterproductive. If you want to produce on that soil, that should be the individual farmer's business, but he ought not to get guaranteed loans or low interest or subsidized rates of interest to overproduce on that soil when no amount of crop off of it will ever pay for itself, given the characteristics of the land.

I also think we overlook the ownership value of that land, and it is someone's land and they ought to have a right to have a say in what they do with it. I think my language goes to that issue in a lot more balanced way.

The last point I would make to the gentleman is that he has been a leader in encouraging me to think about this restructuring of debt relationship to the tax code. For example, if they participate in the writedown of principal and a local bank wants to go ahead and restructure their debt, the person who has their debt written down as a farmer ends up paying taxes the next year as if he, in fact, realized the 10 percent of that debt which was written off as income.

I think that while we do not want to necessarily write it all off, we might provide for a capturing or an extended period of time over which the taxes due on that restructuring could be paid and/or shared with the tenant and other people.

I appreciate the gentleman's insight. He has certainly talked to me about this subject before. I will be interested in helping him on it in the Ways and Means Committee.

Mr. EVANS of Illinois. Gentlemen, we have a quorum call and then a 5-minute vote thereafter. So we will recess here until about 2:45 p.m.

Mr. DAUB. Thank you very much.

Mr. EVANS of Illinois. Thank you.

[Recess taken.]

Mr. VOLKMER [acting chairman]. The subcommittee will come to order.

First I want to apologize if you can barely understand me. I have a bad cold and a little thing called laryngitis, so I will not be talking too much.

Now I would like to begin with the next panel. We have Mr. Vernon McMinimy, A. E. Staley Manufacturing Co. from Decatur, IL; Mr. George Fluegel, LeRoy, IL, of the American Soybean Association, first vice president; Mr. Varel Bailey, president of the National Corn Growers, accompanied by Mr. Jerry Franz, vice president, legislative affairs; and Mr. Carl King, president of Texas Corn Growers, Dimmitt, TX.

I assume that all of you have prepared statements. If you summarize those statements will be made a part of the record.

We will begin the testimony, and you may either summarize that testimony or you may review it in full, however you so desire. However, I would like you, if you can, to hold it to no more than 10 minutes. We still have another panel to hear after this panel. Following the presentation by all panel members, we will go to questioning.

We will begin with Mr. McMinimy.

STATEMENT OF VERNON R. McMINIMY, DIRECTOR, COMMODITY RESEARCH, A.E. STALEY MANUFACTURING CO.

Mr. MCMINIMY. Mr. Chairman, I am director of commodity research for the A.E. Staley Manufacturing Co., headquartered in Decatur, IL.

Basically, my purpose in testifying here today is to increase the awareness of the committee of the importance of corn refining to the disappearance of corn and to inform you as to some of the factors affecting that disappearance.

The A.E. Staley Manufacturing Co. is a corn refining company operating six corn refining facilities in five States. During our last fiscal year we processed 142 million bushels of corn. We produce over 20 major product categories and they number in excess of 600 distinctive products ranging from high fructose corn syrup to methyl glucoside, a chemical used in producing urethane foam. Today the corn refining products that go into food items number over 1,100 items.

We particularly appreciate the opportunity of appearing before you today to share with you our concerns regarding some of the provisions of the 1985 agricultural legislation. We view the 1985 agricultural legislation as a very important element in creating a healthy climate for the production and marketing of primary agriculture products such as corn, and for the products produced from corn such as high fructose corn syrup.

The features contained in the 1985 agricultural legislation will be most important to the economic health of both the American producers and the value-added processors like ourselves. It is estimated that $2.85 of value is added to every bushel of corn refined. That essentially doubles the value of the corn at today's price.

The corn refining industry is an important and growing consumer for the corn producers. Since 1971 its usage of corn has grown at a faster rate than any other major use, including exports. The average compound growth rate for corn usage since 1971 by major category is 0.4 percent per annum for animal feed, the largest usage category; 7.1 percent per annum for exports; and 9.5 percent per annum for refining. This year we will use in the neighborhood of 800 million bushels of corn, 325 percent more than was used in 1971.

The quantity of corn refined has grown steadily year by year while the feed usage and exports have grown in an erratic pattern. In fact, the use of corn for feeding and exports has fallen since the 1979-80 crop year, while the refining of corn has continued to increase.

Corn utilization this year is projected to be below the 1979–80 level by 7.3 percent for feed usage and by 19.1 percent for exports. The amount of corn refined this year will be about 52 percent greater than it was in 1979. We believe that refining will continue to be a growth market for the corn producer, provided the economic climate for the industry is not soured through unfavorable legislation.

Whether the corn refining industry can remain a growth market for corn will be determined by the provisions of the 1985 agricultural legislation. Most of the growth in the corn refining industry's demand since the early 1970's resulted from the development of high fructose corn syrup. In 1971 corn sweeteners consumed in the United States represented 17 percent of the caloric sweetener consumption. Today the usage of corn-derived sweeteners accounts for 45.7 percent of the caloric sweeteners consumed in the United States. Next year it will probably be in the neighborhood of 50 percent.

That usage could decline substantially if the United States were to open its market to the world's sugar market with its dumping ground prices or if the U.S. legislation were to shift the sugar program from a loan support program presently in force to a low price support, direct payment program proposed by the administration.

Presently, raw sugar in the world is selling at below 4 cents a pound. Yesterday in the futures market the price was 3.55 cents per pound. No producer in the world can produce sugar or caloric sweeteners at that price and come even close to covering costs.

In 1982 the weighted average cost of producing refined sugar for all sugar-producing countries in the world was 23.8 cents a pound. The U.S. corn refining industry is the most efficient producer of caloric sweeteners in the world, including sugar, but we cannot touch 4 cents a pound.

Essentially every country in the world who produces and exports sugar subsidizes the production and exports of that sugar. As a result, the world market for sugar bears no relationship to the cost of producing sugar. The world market reflects the conditions of the dumping ground resulting from a highly-subsidized international industry as opposed to a market reflecting the marginal cost of production in a free and openly competitive market.

To open the United States to the impact of the collective subsidizing practices employed around the world would severely injure, if not destroy, the U.S. sweetener industry. That would have a very detrimental impact on the nearly 500 million bushels of domestic corn used as a feedstock for the production of sweeteners.

The administration's proposal to alter the domestic sugar program does not make any sense to us. It shifts the current program from a loan support program, which has avoided any cost to the Government, to a loan and direct payment program which would result in significant Government payments.

First, such a program on its face goes against the administration's efforts to reduce Government expenditures. Second, it ignores the fact that half of the caloric sweeteners consumed in the United States is derived from corn. Under the administration's proposal, those who produce corn sweeteners would not be covered by the direct payment program and would be left to wither on the vine. In addition, any reduction in use by the corn refining industry would either increase Government's cost of maintaining the income of corn producers or worsen the corn farmers' economic problems. We, therefore, strongly urge the continuation of the current sugar program.

It is through the use of corn as a feedstock for the production of corn sweeteners that we see a vital linkage between the sugar title of the 1985 farm legislation and the feed grains title. The technology that brought the production of sweeteners from corn brought a new vitality to the corn refining industry, a vitality that we believe can grow and expand. While profits have not been good these past 3 years, we have managed to fund a substantial research program to develop other new products from corn.

The new products and expansion of demand for current products may well boost the volume of corn used over the next few years at the same growth rate, 9.5 percent per year, experienced since 1971. Most of this increase will occur in the areas of chemicals for carbohydrates and power alcohol. This is the potential we see today; tomorrow's research could provide a breakthrough that would expand that potential significantly.

I don't want to be overly optimistic, nor do I wish to be too conservative. There exists a circumstance, however, which could lead to a sharp increase in the usage of corn-derived products. For instance, we project that if the sugar production were free of Government intervention around the world, the use of corn to produce sweeteners could well be a billion bushels larger than it is now. Conversely, if the administration's proposed sugar program is enacted, it would result in grave injury to the corn refining industry and its future utilization of corn.

The capability of progressing in these areas is dependent upon the industry having the financial resources to support the research and capital investment required to develop the usage of corn for these purposes.

The development of new uses for corn is not only dependent on a healthy and thriving corn processing industry, but a healthy and thriving corn producer.

Today the corn producer is faced with abnormally high interest rates which is threatening his economic survival. Also, he is suffering from declining export markets due to the high value of the dollar and the policies of foreign governments. The producer is powerless in and of himself to counteract these macroeconomic forces. He looks to his Government to act on his behalf to relieve him of these burdens—reduce the huge budget deficits that yield abnormally high interest rates and abnormally high-valued dollar. He also waits for the Government to counteract foreign unfair trade practices to give him a level playing field to compete on.

In response to this, the administration proposes to let the full weight of these forces fall on the shoulders of the producer. In its proposals, the administration, in effect, tells the producer, "You shoulder the burden. You carry the high interest rates and the high dollar, and maybe we'll do something in time about the unfair trading practices."

Frankly, when one considers that the administration's program for sugar will hurt the domestic demand for corn, their promise to do something about foreign unfair trade practices lacks credibility. The administration proposals add up to a program that will seriously injure the corn producer and the corn refining industry.

We ask that you, the enactors of the 1985 farm legislation, consider the needs of the corn producer and our industry. The future of both of us and the promise that it holds will be materially affected by the legislation that you enact.

Thank you.

[The prepared statement of Mr. McMinimy appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much, Mr. McMinimy.

Mr. Fluegel, we have a vote that we are going to have to go to. How long would you say your testimony will be?

Mr. FLUEGEL. About 5 minutes.

Mr. VOLKMER. You may proceed with that commitment, and then we will have to recess for the vote and come back.

STATEMENT OF GEORGE FLUEGEL, FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. FLEUGEL. Thank you, Mr. Chairman.

My name is George Fluegel. I am a farmer from LeRoy, IL. I am also the first vice president of the American Soybean Association. ASA is a national commodity organization controlled by soybean farmers.

Mr. Chairman, we are glad to have the chance to talk about the 1985 farm bill. Farmers today sell in the world marketplace. They have to. There is just no way we could make it if all we had was the domestic market, even with higher prices.

That means we have to be competitive. But, as we all know, the export boom of the seventies has given way to the export slump of the eighties. That has happened for several reasons, but probably no one factor has been more important than the strength of the dollar.

It is not hard to understand what has happened. As the dollar rose higher against other currencies, the effective price of U.S. soybeans to our customers went up and the amount they bought from us went down. What made it especially painful for U.S. farmers was that while the price in foreign currencies was on the up trend, the price in dollars was trending down.

The American Soybean Association supports a pro-trade agricultural policy that will allow the United States to be a preferred supplier of the agricultural products for the foreign markets. This means export title should be No. 1 in the new agricultural bill.

This country must work for a fair international trade arena, and we must tailor our export sales to meet our customers' needs.

I would like to give you a few specifics:

The GSM-102 credit guarantees are very important in making the terms of commercial sales more attractive to our customers. Let's remember that the overvalued dollar is pricing us out of the world market. Credit is one of the few things that allows us to be competitive.

We also need an intermediate credit program somewhat like GSM-102 but offering a longer repayment term. Many developing countries could use this program like this with a 3-to-10-year repayment term.

There is also a need for infrastructural investment in these countries. All too often we lose sales and long-term markets because potential customers do not have the port facilities, the storage systems, or the transportation capabilities to handle our products. Developing foreign countries today means markets both today and tomorrow.

For the countries at the bottom of the economic ladder, there should be an enhanced Pubic Law 480 program. Many of the ideas in the Food for Progress initiative ought to be implemented. They would complement Public Law 480 very well.

The common thread of market-building runs through these programs, but, Mr. Chairman, we will not be able to build these markets—in fact, we probably will not even be able to keep the ones we have now—if our Government insists on applying cargo preference to the USDA export programs.

One example I am sure you are familiar with is the recent court decision that said cargo preference applies to the blended credit program. That means higher shipping costs to have been passed on to our customers. It also means the blended credit program is dead and the GSM-102 credit program will be dead, too, if some future lawsuit subjects it to cargo preference legislation.

Mr. Chairman, as I see it, there is only one answer: Congress must overturn that court ruling and at the same time reform our maritime laws. Until that happens, any congressional action to boost exports is going to be subject to cargo preference, whether it is a bonus bushel program or something else. That raises the cost of such programs unrealistically high.

In effect, Mr. Chairman, your hands are tied on farm exports as long as this cargo preference decision stands. We will not see recovery in the farm sector until Congress does something about that. We need a total exemption for agricultural products from cargo preference, and that includes Public Law 480.

Another way Congress can help soybean farmers compete is by keeping the present market-oriented soybean loan rate. The loan program is a source of credit and cash flow and it protects our farmers against extreme price drops. It does not provide profit by itself, and it was not designed to.

The loan rate for soybeans, as you know, is set at 75 percent of the moving 5-year average in market price, high and low dropped. There is a minimum, 502. This loan program has allowed supply-and-demand balance and it has involved very low Federal budget costs. We are a thorough believer in the statement, "If it ain't broke, don't fix it," and as far as we can see, there is no reason to tamper with the soybean part of the 1985 farm bill.

We think there is a need for some bold initiatives to make the U.S. agriculture more competitive abroad. I want to offer some of these ideas that may have potential.

First, we are losing GSM-102 sales because countries are afraid that what looks like a pretty good deal now might end up being a lot more expensive if the dollar continues rising while they are repaying the loan. We could protect them against an appreciation in the value of the dollar by indexing the dollar at the time of sale to a basket of currencies. If the dollar rose against that basket while the country's loan was being repaid, the customer would only have to repay the original dollar value. The United States would make up the difference.

Second, we believe CCC stocks could be used to leverage export sales under GSM-102. Suppose, for example, we made surplus commodities available to a foreign purchaser in the amount equivalent to the total interest payments on his loan. In effect, he would be getting interest-free credit.

Third, our Government should stop funding programs that increase overseas production of commodities. AID, the Agency for International Development, funds my home State university, the University of Illinois, for over $6 million to develop new soybean varieties and production methods for Brazil—well, for the tropics. As you are fully aware, there are no tropical regions in Illinois, let alone the United States.

An ASA trade team traveling in Brazil last month found new varieties of soybeans being developed there in cooperation with the University of Illinois. Those soybeans will be exported and, because of the processing subsidies, undercut the U.S. world market. That does not make a lot of sense. It would make a lot more sense for us to help the Brazilians increase consumption of Brazilian soybeans, given the fact that millions of their citizens now have a low-protein level diet.

In conclusion, our country has some important choices to make. The world has changed, and what worked in 1935 may not work in 1985. Agricultural policy has to respond to international markets if it is to be successful. The Government role is to fight unfair trade practices and put some effort and capital behind promoting farm exports.

It will not just help farmers; it is going to help all consumers and all of us.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Fluegel appears at the conclusion of the hearing.]

Mr. PENNY (acting chairman). Thank you, Mr. Fluegel.

Mr. Bailey.

STATEMENT OF VAREL BAILEY, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, ACCOMPANIED BY JERRY FRANZ, LEGISLATIVE VICE PRESIDENT

Mr. BAILEY. Thank you, Mr. Chairman.

I am Varel Bailey. I represent the National Corn Growers Association. With me today is Jerry Franz from Wisconsin, our legislative vice president.

I will just quickly go through our statement, and I will be happy to answer questions at the conclusion.

First of all, the Corn Growers Association believes that a healthy agriculture is based on profits from the marketplace. We also feel that, if you view farm legislation since the start about 50 years ago, that it depends on whose eyes you look through, but it has been successful. No other nation has developed an agricultural industry of the calibre of the United States and it has provided a stable and plentiful food supply.

In our presentation we do have a synopsis of our recommended farm bill, and I will quickly go through that:

First of all, on target prices, we believe that they should be frozen for 3 years at $3.18, and after 3 years adjusted no more than one-half of the loan rate. The loan rate should be frozen at $2.55 for 3 years, and after 3 years 100 percent of the past 5-year average, deleting the high and low years, but no more than a 5-percent adjustment per year.

It would be changed immediately to a market-oriented loan rate with a payback base on a 5-month State average farm gate price or the maximum of the loan rate not subject to the payment limitation. The loan becomes a recourse loan with possible extensions and storage payments.

The payment limitation provision is that we oppose any limitations as being ineffective and, in the event that they prevail, the $50,000 limitation applies only to the deficiency payments as defined as the difference between the target and the loan or the market price if it is greater than the loan.

We believe in a conservation acreage reserve of 5 to 10 years set by a formula based on excessive production capacity and participation on a bid basis and targeted toward fragile lands. We feel that the reserve should be phased out to a minimum level of 500 million bushels. The maturing farm-owned reserve inventory will be phased into Public Law 480, and that CCC-acquired inventory utilized as stocks for export incentives and an equalizer of the value of the dollar.

In export expansion, we believe that increased funding for USDA Foreign Agricultural Service, appropriations for export revolving fund, Public Law 480 programming should be doubled with the increase going to titles II and III.

Increase appropriations for both direct and guaranteed export credit programs. If it is U.S. policy to provide for special subsidies to the U.S. maritime industry, then provide direct appropriations for the subsidy included in the budget of the Department of Defense to prevent the reduction of the amount of moneys available to feed the hungry and starving people in developing countries.

Let me just say that the target price in the past has been labeled as an income enhancer. However, I think if you examine what is going on in agriculture today, you will find out that it has taken on another role, and that is it is a mechanism to form capital into agriculture.

If you had to design a system to bring the capital to agriculture that was needed during the crank-up days of the seventies, you probably could not have devised a better system.

The question then comes, as you start to move the target price, it works equally as well on the downside. The real plunging values in land that we are experiencing in the Middle West I think is based, as any rural appraiser would tell you, on the expected value of that commodity in the outyears.

I think we must take a real hard look at what we do with the target price. Obviously, it cannot be held at a nominal figure indefinitely, but in this time of financial crisis I think we have to look very carefully before we move it very far very fast very quickly.

Turning then to the loan mechanism, it worked very well for about 40-some years as a short-term supply of credit and really reducing a lot of the risk in the supply of food and fiber to our society. However, a lot of things have happened in those years.

No. 1, the opening of international trade in the early seventies, the floating of the world currencies and values, and the sharp rise in international trade protectionism. Because of those three things, we must modernize the loan. For this reason, we are looking at the market-oriented loan whereby the farmer enters his commodity into a loan at a fixed rate and then pays back to liquidate that loan based on the market price. We feel that this mechanism is essential to make our products accessible to the world marketplace at all times, and at the same time keep U.S. agriculture competitive and a world class industry, rather than just a welfare case.

I see my time is up. I will be glad to respond to any questions at the conclusion of the panel.

[The prepared statement of Mr. Bailey appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. Bailey.

Our last panel member is Mr. Carl King of Texas Corn Growers Association.

Mr. King, welcome to the subcommittee.

STATEMENT OF CARL L. KING, PRESIDENT, TEXAS CORN GROWERS ASSOCIATION

Mr. KING. Mr. Chairman, I am Carl King, a farmer and livestock producer and chairman of the Texas Corn Growers Association, from Dimmitt, TX, where I have farmed for over 30 years.

I appreciate the opportunity of being able to speak here today and present some thoughts and a farm policy we in Texas think is a workable, budget-cutting plan that will improve farm income as well.

We realize you have heard several testimonies in regard to the farm disaster we are now in throughout America. Farmers in the United States are probably in the worst financial condition of any time since 1931.

Our biggest problem is the U.S. farmer has the ability to produce more than can be sold. We also believe that the consumers of the country cannot expect to continually buy food and fiber at a price that is below the cost of production to the farmer.

I will try to be as brief as I can. I have attached all these, Mr. Chairman, I think 75 copies for the committee in detail further on in the testimony, at your discretion.

This plan, this concept, that we are coming out with is somewhat different from Mr. Bailey's and the National Corn Growers, but we manage to get along with them rather well. We do not always see eye to eye, but we still manage to try to do the best for agriculture on both sides of the fence.

Our plan we feel would save the farmer financially, assure the American consumer of an adequate supply of food and fiber, and establish a loan level, No. 1, on feed grains equal to the cost of production, which would be based on each region's individual cost including land and management costs.

No target would be required, provided the mandatory version is implemented, another part of our program, and the loan level raises the cost of production on the domestic front, including land and management costs. A diversion rate should be based on a national commodity base acreage, which should be a total of all acres. The national commodity per acre yield should be a 5-year average of the national per acre yield adjusted to reflect average acreage yield improvements with the worst year of 5 deleted, just as ASCS does with proven yields. Cross-compliance we feel should also be permitted.

The Texas Corn Growers are convinced that each year diversion acreage should be adjusted according to carryover stocks of feed grains. Depending on weather conditions from year to year, the diversion should be flexible enough to assure an adequate supply of grain for domestic use as well as exports.

Our No. 2 loan level we are talking about is an export loan level, and it would be required to assure grain farmers that they can be competitive in world markets.

The high U.S. dollar, as you have heard before many times, coupled with embargoes, sanctions, and unfair trade practices of other world countries leave us no other choice but to advocate a two-price system: one for domestic yield of the cost of production and payment in kind to the producer who participates in the lower loan to help keep the price of U.S. commodities competitive in the world market.

To further increase our competitiveness, we advocate subsidizing foreign buyers. This would be one other avenue, of probably many you have already heard, with payment in kind of the commodity in surplus, the difference in the exchange rate out of CCC stocks. This would help further more volume, reduce storage costs and interest rates by CCC and employ more people. We employ more than 1 million now, and we need to add to this employment roll.

Our foreign competitors constantly violate the GATT agreement and subsidize exports. Hopefully, this would not violate GATT and, if so, it is time to fight fire with fire.

Enclosed on the back of this statement is a cost of production for what it costs to grow corn in west Texas. Presently, our farmers are losing some $40 per acre based on an average of around 8,960 pounds or 160 bushels to the acre. That is irrigated yield, and the present price is $5.10 per hundredweight.

Also, again, we are against—we would like to see cargo preference dealt with. It costs the farmers as it is protectionism to the American shippers who sell grain under Public Law 480 or other Government programs. Here again is why we as farmers must have some type of protection if we are to stay in business. We have long believed in free enterprise and free markets, but this animal is dead for the time being. We would like to see some legislation passed on the law or an amendment that no shippers can utilize Public Law 480 to sell grain unless farmers' loan levels cover the cost of production.

The 1971 farm debt in the United States was $54 billion. In the early eighties the farm debt as a percentage of annual net farm income has risen approximately 800 percent. We are all aware of that.

FmHA and SBA producer debts should be restructured and reamortized, and private lending institutions should be given an incentive to do the same.

I want to explain just briefly on the President's announced program last fall before the election of loans of FmHA up to 5 years or $200,000 maximum. This was really a farce. I doubt if there is 1 farmer in 10 counties up there who qualified for this type of program. No. 1, the banker will not go along with it, as you all are aware. If he did, he would have to foreclose on the farmer and cash him out before he would get any help from FmHA on that 90 percent, after he would forgo the 10 percent. That was a farce.

I see that the time is getting short, but I will go, as my friend from Staley Manufacturing here has stated, in that the sweetener act that we now have is in effect. It is working well without any cost to the Government. Since corn sweeteners are a large part of the corn growers' business, we recommend that the act remain as it is.

In summarizing, we in Texas Corn Growers Association cannot understand how Congress and the administration can adopt a policy that guarantees the farmer a loss and expect him to pay back loans to the Government and private lending institutions.

Mr. Chairman, we feel that we had to come up with something that looked like it would be a budget-cutter. I am not going to put in any figures, but we looked at from $10 to $20 billion savings on storage, on freight rates, on interest rates, and no payments to the farmer whatsoever if you had a two-priced loan system with mandatory diversions. That is what we are pushing for, and this is the heart of our program.

I do appreciate the time for being here today. If there are any questions, I would be glad to try to answer them.

[The prepared statement of Mr. King appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. King.

I do have a couple of questions for you.

I understand that recently you met with Mr. Block.

Mr. KING. Yes.

Mr. PENNY. And talked with him about your farm program and demonstrated to him that it would cost no more, and might even cost less, than the administration's farm bill.

Mr. KING. That's right.

Mr. PENNY. Could you share with us the reaction you got from the administration?

Mr. KING. I took this program to Jack Block last summer in Dallas, TX, twice. I also took it to him about 3 weeks ago in his office. I told him at that time, I said, "You and I are pretty good friends." He is a likable fellow; I just don't go along with his philosophy, and he doesn't go along with mine, but we have an understanding.

I told him, "Your plan is dead. You know it's dead. Why not look at a supply management program that will work and save bucks?"

If this thing will save the Government money, which everybody in Congress is looking at, and at the same time improve farm income tremendously, what is wrong with looking at it?

I know the first question they are going to ask, Mr. Chairman, is how much is it going to raise food prices. My answer to that question is this, as I testified before the House Budget Committee in Fort Worth some 3 weeks ago, Congressman Frost's committee, and Jim Wright was down there.

I said, "I can tell from the look on your faces you're thinking, 'How much is this going to raise grocery prices?'" My answer to that is, it would be very insignificant with our surveys. And so what? It should go up. We have the cheapest, most plentiful, best quality food in the world. If it did, it would be insignificant compared to the good and the savings this program would do and put agriculture back in a profitable position, and let the farmer start paying taxes once again, instead of going broke.

I can personally tell you that this administration right now—and, of course, I am not just picking on this administration and Jack Block. Both sides of the aisle have been very bad for agriculture the past 10 years, let's face it.

We feel if they would just take the time, the Congress, to examine a cost-cutting situation similar. It does not have to be ours; we are for anything that will save the Government money, the taxpayers money, and at the same time improve farm income. We have to get tough on our foreign competitors.

There are a lot of areas we need to work with, but Jack gets his orders from Pennsylvania Avenue, and I am well aware of that. He didn't tell me that, but I am sure he would if we pressed him. We just do not think like the President, and Mr. Stockman is running the show, and a lot of big grain companies combined. We do not feel the farmer is getting his fair shake in this thing and a fair say-so.

He is aware of this program. He has not turned thumbs down on it. He asked several questions, especially in regard to the export loan program.

Mr. PENNY. Did he admit that your program would cost no more than the administration's farm program?

Mr. KING. Well, I said, "It will save money," and he didn't argue with it. He didn't say it would or didn't say it wouldn't. I sure wouldn't want to put words in Jack's mouth, but I think deep down he knows that our program would certainly save a whole lot more than what they are talking about.

They want to phase out targets and loan levels. We are saying chop it off now. They can have every check they send us, but we have to have an incentive, and that incentive would be raise the loan, not lower it. It is the exact opposite. What they are doing is the exact opposite of what ought to be done. Raise the loan level. That is what sets the price in the marketplace. It does not cost the Government money to raise that loan level.

If they inherit these CCC stocks, believe me, I would challenge any Member of Congress to go to the General Accounting Office and see how much money they make out of that corn and milo and wheat that they inherit, and cotton. They have made plenty of money out of that. They do not put it back through the Agriculture Department. They put it back through the general fund, and that is another fallacy. They have a poor bookkeeping record. We do not get credit for that, but we get charged up with it. It comes right back, just like the school lunch program and every other program they put out. We do not get credit for it if they put it in the general fund.

Mr. PENNY. You mentioned in your testimony that you thought private lenders needed an incentive to restructure their farm debt. What kind of incentive do you have in mind?

Mr. KING. The President's program on the surface sounded great; it just did not go far enough. Let's just say that, without foregoing 10 percent to the bankers—they want to put the monkey on the bankers' backs, which I can see a little bit of that and the high interest rates and so forth, but most small town bankers are not reaping that. They borrow their money from big banks, as you know.

If they would come in with an FmHA program funding more dollars, if you please—they are going to have to bail the farm credit system out sooner or later if they do not move in some area of this thing that I am speaking of. If they would just simply come out and say, "OK, we are going to give you a chance to restructure this 8-, 10-year, 5-year indebtedness—forgo the interest, for example, forgo the interest for the time being at least. Give him a 10-year or a 15-year—not 1, 2, or 5. Then let him do it on a longer period of time.

It would not do any good to restructure debt unless you could out with a supply management type program like we are talking about to make a profit. Once you get the profit, the farm debt will take care of itself, but it still needs time. We are just talking about restructuring it over a longer period of time and giving private lenders the same advantage as FmHA would give their own lenders. I do not care how they work it. We have no specific formula, Mr. Chairman, but I would just say on the surface they need time and they need to forgo some interest rates.

Mr. PENNY. I have some questions for other panelists, but I will yield to Mr. Evans now.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

First, I have one quick question for Mr. King.

In your mandatory acreage reduction program would the producers have an opportunity to vote on whether or not——

Mr. KING. Yes, sir, I should explain that. I apologize for that, Mr. Evans.

This plan would simply mean a producer referendum, a two-thirds majority, just like Block is talking about in the wheat referendum now. That is another thing you need to be watching because that goes back to 1957 allotments, and wheat does concern corn because it will set a precedent. We do not need to have that referendum because they will defeat it; the farmers will defeat it because wheat acreage has expanded over a third more than it has since 1957. A guy is not going to vote for it because he does not have an allotment, and Jack Block knows this.

Mr. EVANS of Iowa. Do you think a referendum of that nature would pass among corn growers?

Mr. KING. I think Varel Bailey could probably answer that better than I. I asked Jack Block about this the other day. I said, "Do you think your buddies in the Midwest would go for a referendum?" He said——

Mr. EVANS of Iowa. As a corn grower myself, my assessment is I doubt that it would.

Mr. KING. Well, you may be correct, Mr. Evans. But I will tell you what Jack Block said. He said, "I think they're more ready now than they've ever been." He didn't say they would.

Mr. EVANS of Iowa. I would not disagree with that statement.

Thank you.

Mr. Fluegel, you talked about the reluctance of many customers overseas to enter into long-term credit arrangements or even medium-term credit arrangements under GSM-102 and the like, because of fears of changes in the value of the dollar. I think that is a valid argument.

What you were saying was that we would only require payment of the original amount of dollars? Is that what you were saying?

Mr. FLUEGEL. Yes; what our association was thinking on this would be that at the time of sale that value of the dollar at that point in time would more or less at a frozen basis, regardless of the fluctuation.

Mr. **Evans** of Iowa. I would like to explore that just a bit further. There are lots of markets on which one can hedge the value of the dollar against other currencies, but am I right that your concern and their concern arises out of the fact that many of the countries that would use the GSM-102 program do not have hedging markets in those peculiar currencies. It is not the yen and the mark and the pound.

Mr. **Fluegel**. That is correct.

Mr. **Evans** of Iowa. Is that the point?

Mr. **Fluegel**. That is the point, yes.

Mr. **Evans** of Iowa. Have you given any thought to taking, for example, some of this massive amount of wheat that we are going to have even before the new program goes into effect and isolating it from the market and setting it in a special reserve that does the same thing, and you say to a customer, "Hey, if the value of the dollar changes, we will compensate you in some of those surplus commodities."?

You might think about that as a possibility. It does two things. It takes wheat off the market into a reserve where it is not overhanging the market in the true sense of the word, and it does in a certain sense compensate the folks for any increase in the value of the dollar.

I happen to think the dollar is going the other direction for a while, but that might be another way to approach that.

Mr. **Fluegel**. That is an interesting concept.

Mr. **Evans** of Iowa. Mr. Bailey, you know, we have had a number of votes around here so far on budgets and authorizations and the like. Up to this point, without exception in the House—and they have only been indicators because we are early in the whole budget and authorization process—but without exception, as I recall, they voted to freeze spending at prior year levels.

This committee has in its budget action taken the position that we were going to freeze spending for agriculture at the current year's levels. It seems to me, though I have a lot of sympathy for many features of your program, that you are going to spend more money on feed grains next year under your program than would be available if we hang in there at total spending on agriculture supports at last year's levels.

Do you have any comments on that?

Mr. **Bailey**. Yes; I have a couple of comments.

First of all, if you very carefully sort out the like-items for like-items, it may very well have some increase in the amount of money required.

I think, though, that we have to look at the economic situation, especially the agricultural economic situation, much more carefully.

If we would total up the cost that we are going to accrue on the accumulating stocks that are piling up in all the commodities and the total cost of bankruptcies, liquidations, unserviceable debt, and the lending institutions that serve agriculture, I am not so sure but what the plan that we have outlined is a least-cost plan.

We do not have at this point the entire economic projections on the cost of this program. We hope to have them next week, and we will gladly supply them to the committee when they are developed.

Mr. **Evans** of Iowa. Your arguments are good ones, and they are the arguments that are put forth on the floor every time in justification of short-term spending to make long-term savings. All I would say to you is that so far this year those arguments have not prevailed once on the floor of the House. Regardless of how we as a committee feel about this sort of thing, we are going to be in a difficult situation if we go to the floor of the House with an agricultural plan that spends more than last year. I think the producer groups ought to be aware of this.

Mr. **Bailey**. We are struggling with it.

Mr. **Evans of Iowa**. I am out of time. Thank you, Mr. Chairman.

Mr. **Penny**. Mr. Schuette.

Mr. **Schuette**. Thank you, Mr. Chairman.

Gentlemen, I apologize for having to go in and out of your presentation this afternoon. I will just direct a couple of questions and some comments.

Vern, it is nice to see you again, sir. I just want to make a statement with respect to your comments on the interrelationship between the sugar title and the feed grain title. I, for one, with a great deal of both corn and sugar beet production in my district, am well aware of the impact of the world sugar market out there, and particularly in this age of being concerned about outlays and expenditures and having a budget-responsible 1985 farm bill. The sugar program and existing sugar legislation is not an outlay, and it is not an expenditure. (*a*) It is budget responsible and (*b*) in addition, it gives income protection to farmers when agriculture is under great stress.

I am well aware of that, and I happened to sit in at the Cotton, Rice, and Sugar Subcommittee to express those viewpoints as well.

Thank you for your good presentation, sir.

Mr. **McMinimy** Very good. Thank you.

Mr. **Schuette**. You're welcome.

Mr. Bailey, I have a quick question for you.

What are your thoughts, Varel, concerning a bonus commodity program using surpluses and CCC stocks like a baker's dozen to offset the high value of the dollar in 1985 versus what it would have been in 1980, to push and export our products, be it dairy or in the grains, to regain some of our markets? What is your impression, sir?

Mr. **Bailey**. I think we have to take a look at something like that and approach it fairly carefully as to what our long-term trade policy position ought to be. It is a question of whether we structure that so that it violates normally the generally accepted rules in international trade. Let's face it, we will probably be involved in another round of the GATT negotiations in a couple of years, and we do not need any more violations on our part if we plan to open world trade even further.

Now if we have thrown in the towel and feel that international trade, foreign markets, and everything are a thing of the past, then we don't have to worry about how we structure these export PIK's and those kinds of things. But I think we must be very careful. We must consider them and see if they can be structured in such a way so that they do not violate international rules of trade, and in those ways the National Corn Growers would accept them.

We are not ready to open up and say we are ready to roll out the cannons for an international trade war at this time. We are optimistic that long-term international trade will open further and that we support fair trading rules in the international marketplace.

Mr. **Schuette**. Would I be correct in saying, Mr. Bailey, your organization at this point in time has not taken a position on a bonus commodity program, a baker's dozen approach to export policies in an 1985 farm bill at this time?

Mr. **Bailey**. We support it provided that it does not violate the export subsidy regulations on commodities and international trade.

Mr. **Schuette**. Thank you, Mr. Bailey.

Thank you, gentleman. Mr. King, Mr. Franz, and Mr. Fluegel, I am sorry I missed portions of your testimony.

Thank you, Mr. Chairman.

Mr. **Penny**. Mr. Volkmer.

Mr. **Volkmer**. Yes.

Mr. McMinimy, about how much—and I know you have some figures there, and I didn't catch them. Let's assume that we went to the administration's program or we went to a market-oriented program as far as sugar is concerned. How much corn would we not use? Let's say that continued on for a couple of years. Let's say by 1988, about how much corn would we use?

Mr. **McMinimy**. If you go to the world market?

Mr. **Volkmer**. In other words, right now the amount that we are using for corn sweetener, glucose, et cetera, that we would not be doing.

Mr. **McMinimy**. What we are currently using is in the neighborhood of 500 million bushels. I would imagine that if you went to the world price within a very short period of time you would lose at least half of that. With the administration's program, I think it would be very difficult to keep from losing a third of it.

I think a more important aspect is that it is going to significantly hamper the growth opportunities in that industry.

Mr. **Volkmer**. Yes. I don't think it is going to happen, but I just wanted to see the implications of it and understand it.

In other words, if we added that—let's say, to the European Common Market goes ahead with their discussions and puts a quota on corn gluten. Now how does that impact, also?

Mr. **McMinimy**. Well, at the present time I do not think that the imposition of a limitation on corn gluten feed would have any material impact.

Mr. **Volkmer**. None?

Mr. **McMinimy**. Essentially, they accomplish that by having a dairy program. We assisted them by having a price support system for the dollar. With the high dollar and the dairy program in the EEC, it limited the demand in the EEC sufficiently that now we are selling 15 to 20 percent of the corn gluten feed at least in the domestic market, and the price of that commodity is determined by the marginal value of the least-valued use, and that is in the domestic market. That has rather become a moot question.

We still would consider that to be a very serious situation because I think it would be the harbinger of their taking such action on soybean meal at a later date, if they could accomplish that on corn gluten feed at the present time.

Mr. **Volkmer**. When, Mr. Bailey, do you say you will have those figures on the cost? First, who is doing the estimate on the cost?

Mr. **Bailey**. The Food and Agricultural Policy Research Institute located at Iowa State and Missouri.

Mr. **Volkmer**. Right, the University of Missouri, Dr. Womack.

Mr. **Bailey**. Yes.

Mr. **Volkmer**. Very good. They are good people.

Mr. **Bailey**. It is hopeful that will be available Monday or Tuesday of next week.

Mr. **Volkmer**. OK. Fine.

If you will furnish everybody on the committee a copy of that, I would appreciate it.

I have no further questions, Mr. Chairman.

Mr. **Penny**. Mr. Bailey, if we push target and support prices down, what kind of production decisions is your membership going to make?

Mr. **Bailey**. As the target and loan prices go down, long-term decision—land prices, capital improvements—obviously are affected by their new values. I assume, though, that you are referring to short-term production investments.

Basically, as your opportunity for profits starts to narrow, you go through two phases. The first phase is to optimize production, to push yields up, until you reach a point economically where you must start withdrawing inputs and minimizing your cost of production, and you normally then will start sorting your land based on productivity. But that happens at a fairly low price, simply because, as the PIK Program taught many of us farmers, you are probably carrying a farm overhead that you must try to cover by maximizing production until the price gets quite low.

Mr. **Penny**. You expect in the short term, then, we will see increased bushels?

Mr. **Bailey**. This is the normal response, yes.

Mr. **Penny**. What are we going to do with those extra bushels if we already have a billion bushels of corn as surplus?

Mr. **Bailey**. Now that is a very good question. The finding of a home, creating a new, effective demand anywhere in the marketplace is the challenge of all agriculture.

Mr. **Penny**. Do you think that if we do that as a way of trying to price our corn lower than our competitors around the world, that they are just going to sit back and let us take that competitive edge? What kind of response do you anticipate?

Mr. **Bailey**. Obviously, any foreign producer will try to track the marketplace as close as possible. Until the price, the world market price, drops below their cost of production to an appreciable level, they will not withdraw production.

The real debate here, if you will, is on the elasticity of foreign demand. The administration has assumed that it is quite elastic, and many others assume that it is fairly inelastic. I guess I would have to agree that for the next three years—I mean in a normal 2-to-3-year time span, it is fairly inelastic.

Mr. PENNY. Yes. Our recent experience seems to indicate that there isn't an immediate effect with prices going down our markets or our quantity of sales going up.

I have seen some reports that indicate this year, even though prices will be lower, we are going to have a constant export situation in terms of the number of bushels as compared to last year. Do you think that is going to be about the way things turn out this year?

Mr. BAILEY. No, I would say that our exports will drop significantly this year.

Mr. PENNY. Do you think the quantity will drop as well as the value?

Mr. BAILEY. Yes.

Mr. PENNY. I have seen some estimates that the quantity will stay about the same, but the value is going to drop, but do you think the quantity will drop as well?

Mr. BAILEY. A case in point I think is the Korea market. We have been running along at about 3.2 million metric tons. So far to date this year, we have shipped them something around 500 million. It is really doubtful that that market will pick up back to normal levels—500,000, excuse me.

Mr. PENNY. What about the increased purchases being made by the Soviet Union so far this year? Is that something you expect to continue throughout the year? They have purchased additional grain this year beyond what we anticipated they would.

Mr. BAILEY. Well, I guess your question is, What are they going to do next year and the year after that. They are very wise purchasers. They are going to meet the restrictions or the long-term grain agreement, but anything in excess that they purchase from us, if they purchase it over the market, will be for reasons on their behalf. I do not think you can expect, given the fact that if you did not include the 25 percent export tax on Argentine corn coming out of that country, that they could beat us by 33 percent, I do not think you can count on the Russians buying their marginal amounts from us when they can buy it for 66 percent plus the export tax, if they leave it on, from them. No, I don't think we can count on that.

Mr. PENNY. As I read your testimony, you are endorsing a $3.18 target price for the foreseeable future. Is that the right price for corn?

Mr. BAILEY. Well, the nominal $3.18 comes off of a situation that happened about a year ago when we traded a target price freeze for some export enhancement. In that total enhancement package, agricultural commodities received about $5 billion in export credits and other types of enhancement.

Basically, we have found that that was a bad deal because only about 20 percent of that money has been used. It really makes you stop and wonder whether the blended credit, the rifle-shot-across-the-bow approach, is really going to work.

We sorted through many mechanisms before we came to the market-oriented loan as the one that we think will work the best. I encourage you to look through on page 7 and page 8 the list of 11 items that we think that the market-oriented loan addresses very effectively.

But back to the target price, it is, I guess you would have to say, frustration from the fact that we cut a deal with this government to move these products and we would take a lowering of our target price, and it really blew up in our face. Out of that, we say, given everything being equal, it ought to be $3.18.

Mr. PENNY. Do you think if they had followed through on that deal, you might have come out all right—if, in fact, the commitment to spend that amount on export enhance would have been honored, that we would be in a situation now where your quantity of export would be sufficient and the price would be sufficient?

Mr. BAILEY. I think $4 billion, used effectively in that marketplace, would have done quite a lot for agricultural commodities in this interim time.

There was one other provision in there that really ires the corn growers, and that is the paid diversion provision, where we really feel that we were deceptively maneuvered out of a 5 percent paid diversion that would have really helped control the excess production this year.

Again, the administration maneuvered around and failed to offer that, and you have to believe that it really causes frustration in a trade organization of our type when those kinds of things happen right back to back.

Mr. PENNY. I have one final question. Do you think we ought to be putting ethynol into our strategic petroleum reserve?

Mr. BAILEY. I think that would be an excellent idea. I think that using a renewable resource such as ethynol, a proven product in the liquid fuels arena with the many things that it can do for the energy situation, would be an excellent idea.

Mr. PENNY. Mr. King, do you want to respond to that?

Mr. KING. That is one of the few things I agree with him on. [Laughter.]

I like to kid him a little bit.

Mr. PENNY. I thought we might want to end this panel on——

Mr. KING. Well, I would like to say this one thing, getting a little way from the ethynol or gasahol or any substitute fuels made from farm products: we are for that 100 percent. In fact, we have a tax deletion in Texas. It isn't good enough, but we are working on another one.

What I would like to ask some of the members, Mr. Chairman—and I do appreciate your giving us the time to go back and forth on this question-and-answer period. One thing sticks out in my mind on exports, which is the thing that is dead now, the high dollar, all this unfair trade practice by our competitors, et cetera.

I had a deal about 3 months ago with Venezuela attempting to sell them white and yellow food grain corn. We raise a much better corn than they do anywhere outside of South Africa. It is a hard endosperm corn, and the dry millers like it because of its grind factor. We have less percentage of waste, et cetera.

We had a deal going. Even with the high dollar, it looked like we were going to make this deal. Then I get a call and the Argentines had shot us out of the saddle at about $20 a metric ton, due mainly—and I bird-dogged this pretty thoroughly—to the World Bank making a loan some 3 months back to Argentina to improve their exports.

Now I think if I had gone a little further and bird-dogged this, some people up here in the administration, friends of the banking industry, needed some cash flow and they got their shirts hung out to dry over there on some of this interest that they cannot even collect, much less the principal, and they wanted that cash flow at probably any price.

When I told the Secretary about this problem, I said, "I'm afraid I can't swallow this so-called free market, open market, fair market philosophy. Not only is the high dollar killing us, but just because the World Bank, due to the insistence of the United States mainly, lends our competitor money to be competitive with us—then you talk to me about fair, free, open markets. There is no such animal."

I wondered if this committee had given any thought—like the bolivar in Venezuela right now is about 10 or 11 to 1 for the American dollar—if there was any thought given by anybody on a PIK payment on the difference in the exchange rate, for example, out of CCC stocks. It may get into PIK, maybe not the full 11 to 1 or 10 to 1 but maybe half of that.

We have enough CCC stock we are paying storage on that, if you figured up the difference from what you are paying on this terminal storage especially, maybe it would not be any more expensive than what it is now, and it would give us a chance to export more products. Has anybody given that any thought?

Mr. PENNY. That has been considered.

Mr. Evans, do you want to speak to that?

Mr. EVANS of Iowa. We do not have time to extensively really, but, yes, I have proposed that in recent weeks.

Mr. KING. Oh, you have?

Mr. EVANS of Iowa. There has been considerable discussion around here, and we are going to continue looking at it.

Mr. KING. Good.

Mr. EVANS of Iowa. It has some advantages and some disadvantages, but, yes, it has been thought of and it is a very interesting concept, I think.

Mr. KING. I didn't think I was smart enough to think it up. I am sure you fellows had thought of it.

But I am gratified to hear that somebody is giving it some thought. You go back and tell those boys in the Midwest we need that referendum on mandatory diversion, Mr. Evans. [Laughter.]

Mr. PENNY. Thank you, Mr. King. Thank you, Mr. Franz, Mr. Bailey, Mr. McMinimy, and Mr. Fluegel. We appreciate your testimony today.

We have the last panel now. That panel will include Mr. David Senter, the executive director of the American Agriculture Movement; Mr. Donald Henderson, director of national affairs, Indiana Farm Bureau; and Mr. Sherwin Gardner, vice president, science and technology, the Grocery Manufacturers of America.

If you three gentlemen will come forward, we will take you in the order that I called on you. The first to testify, then, would be Mr. Senter.

David, if you would hold up for just a couple minutes until those who are leaving have a chance to leave and others have a chance to come in, we would appreciate it.

At this point, before the panel begins, I have a commitment in my office. Therefore, I will turn the gavel back to Congressman Volkmer of Missouri.

Mr. Senter, begin your testimony.

STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. **Senter.** Mr. Chairman, I am David Senter, national director of the American Agriculture Movement.

We appreciate very much the opportunity to be here today.

When I was making preparations for this particular hearing, I went back and looked at hearing records in 1978, 1979, and 1981, through the years. It would have been fairly easy just to have taken that exact testimony and re-entered it as far as the American Agriculture Movement is concerned.

We have consistently urged legislation that would return to parity pricing using a mandatory supply management program. We have urged parity because we do not believe that the cost of production can be used to return an adequate figure to the Nation's producers.

USDA proved the American Agriculture Movement right in 1983 when the cost of production formula was changed, removing labor, management, and return on investment from those figures, thereby lowering the cost of production by a third across the board.

We read the estimates now from the Department. They are estimating $138 billion cost of production this year with $138 to $140 billion total return from all farm marketings. That is almost a break-even figure, by their own hand. Yet, they are proposing lowering the price to solve the problem. We can find no logic in that.

The American Agriculture Movement believes our programs should be based on loan rates which are repayable plus interest. There are as many ideas as there are people on the new farm bill. We fail to see logic in selling export commodities cheaper to Russia, Japan, or any other customer who can afford to pay a fair price. That is the result of lowering the loan rate. That is also the result of the marketing loan rate.

We have the Public Law 480 export credits, export PIK, and many other ways to sell food to the Third World countries and those who cannot afford it.

We are a signor of the GATT agreement. Under this agreement, the United States or any other country has the ability to tariff or do whatever is necessary to raise the price to the domestic level to protect their domestic producers. That is what we are talking about in a program. We have to protect the American producer. We cannot pit that producer against foreign treasuries, as is in the administration proposal.

We look at our trade deficit. Look at what we are subsidizing—Russia's military buildup by selling them food below the cost of production, also cheaper than they can produce it themselves.

We hear a lot about lowering the price and breaking the European Common Market or the other countries that subsidize their production. If we did break the European Common Market or any other country, the United States would be the first to rush in and subsidize that economy and prop it up, as we have done time and time again through the International Monetary Fund, which took billions of dollars out of the U.S. Treasury last year.

We think the United States should call a meeting of producing nations to establish production levels, market shares, and, yes, even prices. What is wrong with establishing a fair price for a national resource?

The farmers' income cannot be protected with target prices. The reason is the payment limitations. When you limit the amount of target payments a producer can get, you limit the size of the producer that can get access to the programs, and for a supply management program to work you have to be able to bring all the producers into the program.

The American Agriculture Movement supports eliminating target prices and building the program around adequate loan rates. We support a referendum for a mandatory program based on bushels and pounds. Acreage controls will not work because of the slippage in the program.

American Agriculture Movement has always urged that wheat, soybeans, and feed grain all be included in the program. You hear a lot from commodity groups about leaving soybeans out, but I can tell you, Mr. Chairman, we have as many broke and foreclosed soybean farmers as we do wheat farmers in this country.

We have a university study that came out of the University of Missouri and the University of Iowa that shows that an 80 percent parity program has the same cost as the free market program proposed by this administration. The parity program would only cost $4.4 billion in 1986 and zero cost thereafter. Losses in the Farmers Home Administration will exceed that very amount just on outstanding loans at this point.

We can call it emergency legislation, the 1985 farm bill. We can call it anything we want to, but what we have to do is this: agriculture is in a state of collapse; you know it and I know it. Just to keep the prices the same is of no help because farmers cannot pay now. Higher prices are the only thing that is going to solve our problem and your problem. All the credit programs, insurance programs, or any other idea are not going to substitute for fair price in the marketplace.

I might say, Mr. Chairman, that in a meeting with American Agriculture Movement leadership, Secretary Block told our group that the costs were the same of our parity legislation with supply management and what they were proposing. There was no cost difference, that it was an "argument of philosophy." That is a direct quote from the Secretary. That is what we are talking about. It is not cost. It is not busting the budget. We are talking about the free market versus continuing our price support programs which protect the consumer just like they do family farmers.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

Mr. VOLKMER [acting chairman]. Thank you very much, Mr. Senter.

The next witness will be Mr. Henderson.

You may summarize or proceed as you wish presenting your statement in full, however you desire.

STATEMENT OF DONALD E. HENDERSON, DIRECTOR, NATIONAL AFFAIRS DEPARTMENT, INDIANA FARM BUREAU, INC.

Mr. **HENDERSON**. Thank you, Mr. Chairman.

On behalf of the Indiana Farm Bureau, I want to thank you for the opportunity to participate in your hearings.

If I could, I would like to ask that my prepared statement just be submitted for the record.

Mr. **VOLKMER**. It will be made a part of the record.

Mr. **HENDERSON**. If you would, please.

There are just a couple points that I might like to emphasize, particularly in regard to export programs. Total Indiana agricultural exports have declined by about 25 percent from 1981, from $2 billion, into 1983 where they were $1.5 billion. Over the same period, U.S. agricultural exports declined by 21 percent, from $43.8 billion to $34.8 billion.

It is our understanding that the National Commission on Agricultural Trade and Export Policy is expected to release a report in a few days that will conclude part of the reason for the decline is a lack of long-term farm program that is linked to profitability for agricultural users and a lack of aggressiveness in the use of foreign market development measures.

The administration's farm bill calls on the USDA to identify nations hurting U.S. agricultural trade and seek reductions in trade barriers. While we in Farm Bureau support these efforts, farmers need expansion sooner than what the administration's proposals provide. We do not believe in agriculture that we can survive with this delay.

Under Farm Bureau's program, as has been discussed earlier by Dean Kleckner of Iowa, considerable efforts are being made for export promotions, export credits, and trade relations. Support is given to the continuation and expansion of past programs with particular emphasis on expansion of the CCC export credit program and the development of new programs under Public Law 480.

The Farm Bureau also proposes the bonus incentive commodity export program, which is an export expansion program where available CCC stocks are used as no-cost bonus commodities to offset the adverse effects of export subsidies of competing farm export countries and to develop new markets. This program is to be implemented when CCC stocks are in excess of minimum carryover requirements and is based on savings in annual storage costs.

As stated here a little earlier, it might not be appropriate in accordance with our agreements, our general agreements on tariff and trade, to become involved in such an activity, saying that maybe it is not proper to bring out the cannons, but I guess we would say that maybe it is time to show a few cannons. Maybe we don't fire them, but just having them and our foreign competitors knowing that we have them and are ready to use them might be ample evidence enough that we do mean business.

The Farm Bureau also believes that a 2-year extension of the current farm program would not be beneficial to farmers. The Farm Bureau urges Congress to adopt its farm bill this year.

In summary, the 1985 farm bill needs to allow farmers to eventually move closer to the marketplace. I do not believe there is any question—we in Indiana, as farmers in Indiana, feel that we are really at a crossroads in what direction we are going to take as far as agriculture is concerned. Are we going to take our production signals, continue to take them, from the Government or are we going to move and turn the corner and take our production signals from the marketplace? I think our farmers are saying very clearly, and feel very clearly, that the Government has not been a reliable signal-caller to this point. It is time that we do move in the direction and turn the corner and start to take our signals from the marketplace. It does not mean that it will be any more or less profitable, but it does mean that it will give us a more reliable signal.

At the same time it must provide needed protection against unfavorable world market conditions that exist today. It will take time for our farmers and ranchers to work their way back to the marketplace, and Farm Bureau's farm bill will provide the time that it will take for our farm economy to become more self-reliant.

I would like to close, Mr. Chairman, by expressing our thanks in Indiana as well to Mr. Emerson for introducing that legislation, and the others of you who are helping to cosponsor it.

[The prepared statement of Mr. Henderson appear at the conclusion of the hearing.]

Mr. **Volkmer**. Thank you.

Mr. Gardner.

STATEMENT OF SHERWIN GARDNER, VICE PRESIDENT, SCIENCE AND TECHNOLOGY, GROCERY MANUFACTURERS OF AMERICA, INC.

Mr. **Gardner**. Thank you, Mr. Chairman.

I would like to ask that my full statement be made a part of the record, and I will summarize the major points.

Mr. **Volkmer**. Your statement will be made a part of the record.

Mr. **Gardner**. Thank you, sir.

Mr. Chairman, members of the subcommittee, I am Sherwin Gardner, vice president for science and technology of the Grocery Manufacturers of America. GMA is a 75-year-old national trade organization. Our membership is comprised of over 130 companies which manufacture food and nonfood products sold in grocery stores throughout the United States. Our member companies employ over 2.5 million people nationwide and have total annual sales in excess of $250 billion.

GMA appreciates this opportunity to appear before the committee to discuss the need for national uniformity and tolerances in pesticide residues in food, both for raw agricultural commodities and for manufactured products.

This issue is a bit different than those of support prices and interest rates, but one which we believe is, nevertheless, a matter of great economic and marketing importance to agricultural producers as well as food manufacturers.

A national uniformity requirement is needed because virtually every State has one or more laws governing the safety of pesticides in food. Repeated attempts to achieve national uniformity in the enforcement of these laws have been unsuccessful.

Pesticides are of critical importance to food production in this country, and our nationwide food production and marketing system depends upon uniformity in their regulations.

We are asking the committee to consider this matter at this time because of the recent experience arising from the use of the pesticide ethylene dibromide, EDB.

The State of Florida in December 1983, because of safety concerns over consumer exposure to EDB, took unilateral action in banning any food product that contained any measurable amount of EDB. About 2 months after Florida's action, EPA established new safety standards for raw grain, for intermediate products, and for ready-to-eat foods. In the judgment of a large number of independent scientists, these standards for EDB residues provided a wide margin of safety to the public.

Notwithstanding this strong Federal action and a determined effort by industry to meet and exceed Federal tolerances, several States, including Massachusetts, New York, Maine, Texas, New Jersey, and California, each adopted different standards. These standards, which in some cases were impossible to meet, did not provide the public with any additional health protection over that established by EPA.

For the first time in the modern history of Federal regulation of the Nation's food supply, States abandoned the Federal safety standard for agricultural commodities and manufactured foods marketed throughout the country.

Compliance with different and inconsistent Federal and State standards is difficult, if not impossible, for the food industry which is, after all, national in scope. A given batch of grain, for example, may be grown in one State, stored for a period of time in another, processed in a third, sent to a distribution warehouse in a fourth, and from there sold to consumers in half a dozen States nearby. It simply is not feasible for a manufacturer to prepare one batch of food to meet the standards of one State and another batch to meet a different standard in a second State. In the same way, it is not feasible for a grower to set aside one part of his crop for sale in one State and another part of his crop for sale in a second State.

Actions by States to set different standards also create confusion in international markets. The Soviet Union, for example, noting the different actions of the States and the Federal Government, expressed concern over EDB residues to U.S. wheat exporters. Finally, as a result, they agreed to accept grain that did not have residue levels greater than those set by EPA.

The EPA episode should not be viewed as an exception that will not be repeated. EPA is now reviewing approximately 300 food use chemicals and thousands of tolerances related to those uses. As decisions are reached by EPA, there should be assurance that major disruptions in food production and marketing will not occur.

A national uniformity requirement in pesticide residues in food would avoid such disruption in agricultural and food production while affording a high standard of protection to the health and safety of consumers.

This legislation should be sharply focused on residue tolerances, and it should preclude any State or locality from establishing or enforcing standards for pesticide residues in food, if such a standard is within the scope of Federal law and if that State or local standard is in addition to or different from Federal law. That does not exclude the States from participating in the process of setting the standards, but merely assures that the tolerance, once established, is applied uniformly throughout the country.

Seventy-five percent of U.S. agricultural produce in 1983 was transported to more than 21,000 domestic food manufacturers and processors throughout the Nation. We believe, therefore, that the development and promulgation of safety standards for pesticide residues in food nationally produced and marketed is properly a matter for the Federal Government.

The explanatory statement we are submitting to the committee describes the legislative and regulatory history related to the control of pesticide residue and includes a description of the legislative approach.

In concluding, we would like the committee to know that other groups are supportive of national uniformity. The Administrative Conference of the United States in December 1984 issued a report and recommended that Congress and the Federal agencies directly address this problem in order to protect nationwide interests. The Association of Food and Drug Officials, at its meeting in June 1984, likewise, adopted a recommendation to develop specific areas where national uniformity requirements would be endorsed, including pesticide residues.

Finally, we have received support from a number of State food and agricultural organizations for a national uniformity requirement in pesticide residues.

Again, Mr. Chairman, we appreciate the opportunity to present this statement to the subcommittee.

[The prepared statement of Mr. Gardner appears at the conclusion of the hearing.]

Mr. **Volkmer**. Thank you very much, Mr. Gardner.

I believe probably, before we go to questions, we had hearings this morning in another subcommittee on the FIFRA bill, and that would probably be just as applicable and you may wish to consider sending a copy of that statement to our Department Operations, Research, and Foreign Agriculture Subcommittee, also, because it basically applies to the FIFRA question and how do we arrive at these criteria.

Right now, as you point out, the State has the right to regulate as well as EPA.

Mr. **Gardner**. Well, the pesticide tolerances are now set by EPA under a different statute than FIFRA. While I suppose that it could be considered under FIFRA, we think that this is just as equally appropriate——

Mr. **Volkmer**. In this subcommittee?

Mr. **Gardner**. To consider as a marketing issue.

Mr. **Volkmer**. All right.

The gentleman from Iowa?

Mr. **Evans** of Iowa. Thank you, Mr. Chairman.

Mr. Chairman, as you have noticed, Mr. Roberts has had to be absent because of other duties. He has a statement here in support of Mr. Gardner and the Grocery Manufacturers of America and their goal of achieving uniform tolerances. I would like to submit that to be included in the record at this point, if I may.

Mr. **Volkmer**. Without objection.

[The statement of Mr. Roberts follows:]

STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. Chairman, I would just like to say that I appreciate the Grocery Manufacturers of America taking the lead on this issue. The EDB controversy once again focused America's attention on the quality of the food supply, putting the nation's grain farmer in the middle of a battle between protecting his crops from loss due to pest infestation and the consumer who is worried about the chemicals that are applied to the food that they eat.

The fire of this controversy was fanned by ambitious state regulators who refused to accept the national guidelines. In the final analysis, the wheat farmers that I represent were the losers. Just yesterday, I understand there was a Russian team in town visiting USDA to discuss the grain quality issue and how to control insect infestations in the grain they buy.

I believe the Grocery Manufacturers are doing the farmers of this nation a great service by taking up the fight for national uniformity. It makes little sense for the United States farmers and the food processing industry to face 50 different tolerance levels. Rest assured, that I will lend my support to the battle for uniform tolerances and I urge the rest of my colleagues on this Subcommittee to join me in that battle.

Mr. **Evans** of Iowa. I would like to tell Mr. Gardner that I certainly associate myself with Mr. Roberts' remarks and am very pleased that Mr. Gardner is here today.

Along the line of pesticide residues, I would like to raise a subject that is of considerable interest to me. A number of scientists have written in the past couple of years that consumers receive some 10,000 times as much dose of carcinogens, things that might cause mutations and the like, from the natural products that are produced by some of our native fruits and vegetables and most all plant life has to survive in the natural environment. They have evolved over the centuries the mechanisms for protecting themselves against the various pests, just as we apply additional pesticides at this time.

It seems to me that at some point in this debate on pesticide residues someone has to make a correlation between the level that exists in natural foods and what these residues are that we are talking about coming into the food chain due to man's application of something that is artificially created. I think that is a very fruitful area for someone to examine in detail.

For example, I visited Monsanto's testing laboratory in St. Louis a year or so ago. I had lunch with the person who runs the mutations testing side of it. We were talking about the seriousness of a certain chemical, and he said, "Well, yes, it does create mutations, but it is not nearly as bad as green beans." He went on to say, also, that the natural substances in fresh onions were also high on the list.

I think to put all of this business of pesticide residues in perspective, at some time you have to correlate that with what has been in our food chain for generations and generations and generations in some of these natural foods. I would urge you to look into that. If you are interested, I might be able to at least point you in the right direction of some of the data on this.

Mr. GARDNER. Mr. Evans, you are entirely on target with those comments. In fact, Dr. Bruce Ames of the University of California has done a fair amount of work in that area and has published several papers, one of which about a year ago appeared in Science Magazine and did, in fact, outline exactly the point you are making—that a great number of naturally-occurring agricultural products, including those you mentioned and going on to name mushrooms and strawberries, for example, contain some of these natural pesticides. That is a valid point you are making.

Mr. EVANS of Iowa. I would imagine that growers are a little reluctant to raise this topic, but it seems to me that you have to in the evolution of the debate on this subject. I would hope you would overcome the reluctance to address it on that somewhat broader base.

Mr. GARDNER. Mr. Evans, we are not reluctant to make the point, and we have done so on several occasions, including the most recent one on EDB in which we were engaged.

Mr. EVANS of Iowa. To Mr. Henderson, if I may, you talked about trotting out the cannons and whether they ought to be fired yet. I think that is a good analogy, and I agree with you. I have some of the same reservations.

I would make this point: We are shortly going to have a new trade representative who is a very strong-minded person and a person who understands agricultural trade very, very well, by virtue of his experience over the years in a variety of fields.

One possibility is to trot the cannons out and for a short period of time give them to him to decide whether or not to fire. If we have an aggressive trade representative and he is allowed to pursue his mission as defined in the law, it sort of appears to me that that might not be a bad way to use some of these cannons at this point in time.

Do you have any comments on that?

Mr. HENDERSON. I would not disagree, Mr. Evans. I think that the thing that we need to do more than anything is to get some of our foreign competitors' attention.

Mr. EVANS of Iowa. Yes.

Mr. HENDERSON. I talked and I visited and I have friends in many of the foreign Embassies and visit with them, and it is very clear to me that if we really become serious about competing on world markets, we are going to change—they take their signals of what they do from us. As long as we are the major player in world agricultural trade, they are going to continue to do that. If they see us willing to compete, then several of them have indicated to me that they are very definitely going to have to reevaluate how they subsidize their farmers. As long as we continue to cut back our production in this country and we continue to make cuts, they continue to expand. We have been sending them that signal that allows them to expand.

I would say that I would agree with you wholeheartedly. I do not think we necessarily have to fire them, but I think the fact that we do have them and we are ready to and willing to is signal enough.

Mr. **Evans** of Iowa. Thank you, Mr. Chairman.

Mr. **Volkmer**. Thank you, Mr. Evans.

I have a few questions.

First, Mr. Gardner, I just want to say that I, too, am sympathetic with the problem, and I am sure we will address it somewhere down the line in developing the farm bill.

Mr. Henderson, just out of curiosity, are you livestock, grain, all grain, or——

Mr. **Henderson**. Mr. Chairman, we have a grain farm.

Mr. **Volkmer**. In what part of Indiana?

Mr. **Henderson**. Henry County, IN, northeast of Indianapolis.

Mr. **Volkmer**. Yes.

Mr. **Henderson**. If you are familiar with that area.

Mr. **Volkmer**. Yes. My wife is from Kokomo. That is why I was curious.

Mr. **Henderson**. Well, then, you know where we are from.

Mr. **Volkmer**. It is a good area.

Mr. **Henderson**. Right.

Mr. **Volkmer**. Has the Farm Bureau examined the question—you talked about exports with the gentleman from Iowa—the question of elasticity or inelasticity in the foreign markets as far as our exports are concerned. Some of us have made some examination of that and we do not like really what we see.

Mr. **Henderson**. I would not disagree with that, Mr. Chairman. However, I think a part of the solution is going to be to go back to what we found in the forties and the fifties through the Marshall Plan in reestablishing our credibility as a world supplier through our Public Law 480 program and the programs that we have—we have some developing countries that we could be very helpful to and help farmers in the process. I think we need to more aggressively pursue those opportunities than maybe we are doing now.

Mr. **Volkmer**. I agree that there are some things that need to be done, but we have some nations that are developing in agriculture maybe a little more rapidly than some of us anticipated even several years ago and can develop even further.

The gentleman from Iowa, Mr. Bedell, speaks of the agricultural opportunities in Argentina and Brazil with a vast amount of acreage that is still not in production and where they produce wheat for—well, they are not quite making money at $2 a bushel, but we sure cannot make money at $2 a bushel.

Mr. **Henderson**. I understand.

Mr. **Volkmer**. And corn is $2.50 a bushel and they are making money.

How are we going to make money at $2.50 a bushel?

Mr. **Henderson**. What we are saying, Mr. Chairman, I think what would be very clear—if we just begin to lower our loan rates, we think that that is going to send the signal to other countries that is going to stop their production, not raise their production. I think that is going to be as effective a signal.

We can produce—there is no question—we can produce only for domestic markets, if we choose to go that route. I can tell you only from Indiana's standpoint we are a major agricultural exporting State.

Mr. **Volkmer**. Yes.

Mr. **Henderson**. Fifty-five percent of our soybeans go for export, 36 percent of our corn. If we cut back and we produce only for domestic needs, we can eliminate 55 out of every 100 soybean farmers in Indiana and we can eliminate 36 out of every 100 people who are growing corn, farmers who are producing corn.

Now the question is, What do we do with the land and what do we do with those farmers, and who makes the determination as to who gets to farm and who doesn't, and how much he gets to farm?

We feel that those decisions, if they are made on that basis, someone in Washington is going to have to making those decisions. That is where we have a problem with cutting our production back.

Any time we start an industry, any time an industry in this country starts to produce for a declining market, it is in real trouble. The steel and automobile industries, I guess, are two that come to my mind. They are located in our State pretty heavily, and those industries are in serious trouble today.

We must be producing for expanding markets. We do not have any other choice if we are going to create opportunities for the future.

Mr. **Volkmer**. We would all be better off if other nations—if the value of the dollar were down and other nations had a better economy, and then maybe they could buy some more of our wheat and feed grains. We would probably be better off, too.

One last question: I doubt if the Farm Bureau has taken any position yet because it is fairly new. If you do not wish to make a statement on it, that is fine. That is on the proposed wheat referendum that the Secretary has announced will be held the week of July 19 through 26. Do you have any comments you would like to make at this time?

Mr. **Henderson**. No, sir, not at this time I wouldn't.

Mr. **Volkmer**. Mr. Senter, would you like to comment on that wheat referendum to begin with?

Mr. **Senter**. Yes. The American Agriculture Movement is not supporting the referendum that was announced by the Secretary because, when you use the basis that is involved in rolling back to the acreage in production in 1977 and all the provisions, it is a referendum that will not pass. In our opinion, they are concerned about our passing legislation with a referendum in it, and it would help defeat that if this referendum goes down very badly and then they can say farmers do not want production controls, et cetera. It is not reasonable to have a referendum with that basis in conjunction with action on a 1985 farm bill. It is just totally inconsistent and a waste of funds.

Mr. **Volkmer**. Do you read it, then, to be that they anticipate, of course, that the farmers will overwhelmingly defeat it and, therefore, any acreage control type programs, et cetera, which would be in the referendum as something that the farmers do not really want?

Mr. **Senter**. Yes; that is the way we are reading it at this point.

Mr. **Volkmer**. I, too, have reviewed the study made by the Food and Agriculture Research Institute at the University of Missouri and the 80-percent parity. Under that, do you agree that there would have to be some Government controls on production?

Mr. **Senter**. Yes, it would have to be. With higher prices, you would have to have production controls. In that particular study, the estimates on the reduction in our exports were pretty dramatic.

Mr. **Volkmer**. Yes.

Mr. **Senter**. I think it all depends on the basis that you use exactly how the higher price will eventually affect our exports. Our position is that our export markets are fairly inelastic, and that we are sitting here and we had $3.65 loan rate on wheat and we lowered it to $3.30, and the world price followed it immediately down. In our opinion, if we lowered the loan rate on wheat to $3 or $2.50, the world price would adjust downward, and at the same time we would not, in effect, increase drastically any kind of export markets by lowering our price.

We think we are going to have use the export PIK, these kinds of programs, to decide what market share we want and have traditionally had, and then to match our competitors on any given period of time with that program to maintain our market share, and serve notice on them that we are going to keep those markets by doing whatever we have to, to start getting into some kind of a reasonable program.

It is a lot better for us to sell 10 bushels of wheat and give them 1 or 2 or 3 extra bushels of wheat for each 10 sold. We are getting rid of commodities out of this country. That is a lot better than giving them dollars to let them spend for whatever they want to and probably into somebody else's economy. That is how we are viewing it.

We would rather give them some more commodities to get them on out, so that we can produce as much as possible, but yet on a year-to-year basis adjust that production to make it match.

Mr. **Volkmer**. Mr. Henderson, you addressed my question earlier in regard to international production such as Argentina, et cetera, and we would give them a signal so that they would not increase their production. Do you or does the Farm Bureau anticipate that Canadian wheat production would decline appreciably if the price of wheat declines, say, to $3 in this country?

Mr. **Henderson**. I think, Mr. Chairman, you are going to see that vary from country to country, depending on what kind of subsidy program they have. What you are going to do with the signal that will be sent, it will be the signal, then, that will determine how they subsidize their farmers. Right now they are subsidizing their farmers, the EEC and other countries, by dumping their excess production on world markets. If it gets unprofitable and it gets too expensive for them to do that, the people that I have talked to and some of the foreign embassy people that I am familiar with and know indicate that they will be forced to use some other mechanism. That is what we will see more than whether or not one country increases or decreases its production. I think that would vary from country to country, depending on how they read our particular signal that we are sending.

Mr. **Volkmer**. I agree that the European Common Market is probably the one that is the most vulnerable as far as production. If we lower our prices in the world markets, they are about to the point where their subsidies—they are about to the limit. The amount of stocks that they have in intervention is about to the limit. I doubt very much their governments can afford additional funds, their economic conditions being where they are.

I, myself, and some others not too long ago went to Canada and discussed it with them. Their situation is a little bit different. It is good to understand.

In the first place, we do not raise all the hard winter wheat, the spring wheat, that hard red, that they do. The quality is different, and they have a different market than a lot of our wheat. So that is a different situation. They are not going to lose that market, no matter what the price is here.

I think that gets into the question, too.

We all try in our various ways to solve this crisis. I think we all agree that the American agriculture is in a crisis situation. Would you agree to that, Mr. Henderson?

Mr. Henderson. We have agreed with that for some time. We felt that for some time. I can tell you, when you get outside of Washington, you don't have to get very far to understand the problems that we are faced with on the farm.

Mr. Volkmer. Mr. Senter, do you agree with that?

Mr. Senter. Yes; we do agree with that.

Mr. Volkmer. Mr. Gardner, as a good grocery manufacturer, you would even agree with that, wouldn't you?

Mr. Gardner. Yes, sir.

Mr. Volkmer. Well, with that, I think again we have an agreement all the way across the board.

Unless the gentleman from Illinois has questions or a statement, we will conclude today's hearing.

Mr. Bruce. No questions.

Mr. Volkmer. I want to thank all of you for being here. Your testimony has been very informative and very helpful. We appreciate the time that you have taken and the long period that you had to wait to testify. Thank you very much.

We will now adjourn the hearing.

[Whereupon, at 4:39 p.m., the subcommittee recessed to reconvene at the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of Henry Neshem, President
National Association of Wheat Growers
before the
Wheat, Soybeans & Feed Grains Subcommittee
of the
House Committee on Agriculture
on
1985 General Farm Legislation
April 18, 1985

Mr. Chairman and Members of the Subcommittee:

The National Association of Wheat Growers appreciates this opportunity to present its views on legislation to replace the "Agriculture and Food Act of 1981." I am Henry Neshem, a wheat farmer from Berthold, North Dakota, and president of the NAWG. Accompanying me today is Carl Schwensen, the association's executive vice president.

U.S. farmers are currently experiencing the most prolonged economic decline since the 1930s. Land values continue to plummet, reducing net worth and the farmers' ability to finance their operations in the face of declining prices and shrinking markets. The wheat sector of the farm economy has become very export-dependent, but exports have declined in both value and volume since 1981, and prices at the farm gate are the lowest in six years.

Farmers are being told that the solution to these problems lies in more "market-oriented" farm programs, a term that has now become a code word for lower farm prices.

What we need more than anything are "profit-oriented" programs, and actions which will open-up new trading opportunities instead of sealing them off with damaging economic and foreign policies.

Mr. Chairman, we are convinced that strong commodity programs are essential to maintaining our agricultural sector, and we believe further that this approach will prove to be far more cost-effecient than the alternative of dealing with bankrupt farms, banks, rural businesses, equipment manufacturers and others in supply industries, not to mention the reduction in jobs and the dislocation of resources that would be part of such a policy course.

Simply stated, we believe that a strong wheat program will result in the avoidance of greater economic costs on the part of the government.

Let me outline the major provisions of the farm program that the members of NAWG adopted in January.

Target prices should be maintained at the current $4.38 per bushel or increased at the Secretary's discretion;

Continuation of a non-recourse national loan at $3.30 per bushel, but with a variable repayment rate based upon the average state price received by farmers for their crop;

Require a maximum 20 percent set-aside if carryover exceeds 700 million bushels in any one year; additional acreage diversion would be for pay.

Implement a long-term conservation reserve;

Establish farm bases on the amount of land normally planted or considered planted; and

Provide government assistance during periods of declining world market share.

Importantly, this proposal would maintain farm income by continuing the target price program at a statuatory minimum of $4.38 per bushel. The "marketing loan" program will not adversely affect farm income, but it will increase U.S. competitiveness. This program allows market forces to dictate the price of grain. Since fewer bushels will be forfeited to the government or placed in reserves, program costs will be reduced. U.S. farm products will become more competitive in the international market, and the loan will not act as an umbrella for world market prices.

Under the program, a farmer would have the option to repay his loan at the average market price in his state which could be quoted twice a month. An example may help in understanding this feature. Say that after a farmer obtained a $3.30 per bushel loan, the state average price later dropped to $3.20 per bushel. He could then redeem the loan at $3.20 and market his wheat, and his total income would not have changed. Or, a grower could elect to settle his loan for $3.20 and hold his grain for a better marketing opportunity. In each example, the bushel would move into the market and not into the hands of the Commodity Credit Corporation where the high costs of loan forfeiture, lost interest and storage would be incurred.

This loan program "unties" our price support from the world market. It means that the price floor which competiting exporting nations have used for market protection essentially will be removed.

Mr. Chairman, we are keenly aware that the budget resolution now pending in Congress will have a major impact on the design and content of new farm legislation. Our analysis of the "Senate-White House Deficit Reduction Agreement" indicates that the Reagan Administration aims to reduce the deficit by about the same amount over the next three years as the Senate Budget Committee has proposed. Although the two plans have about the same "bottom line", they differ substantially in their treatment of agricultural outlays.

The White House porposes to increase defense spending $17.7 billion over the three-year level set last month by the Senate Budget Committee, while decreasing funding for agriculture by $13.2 billion during the 1986-88 fiscal years. In other words, nearly 75 percent of the administration's planned defense increase will come as a result of decreases in farm spending.

Rather than spreading the cost of defense increases equitably across the budget, President Reagan is asking farmers to take the big hit. I believe that a strong defense is in everyone's interest, but I also feel that all sectors should share the burden of higher outlays.

Votes on the agriculture budget will virtually lock-in the kind of farm bill that can be enacted in 1985, and the NAWG is urging Members of Congress to to recognize the financial stress in the farm economy and the collapse in export sales opportunities we are experiencing in reaching its budget decisions. The Senate Budget Committee recognized these problems when it agreed to limit program cuts to $2 billion.

Finally, I would like to observe that three of the last four farm bills were not enacted until after three-quarters of wheat crop covered by their new provisions had been seeded. In fact, the 1981 Act was not signed into law until December 22, six months after farmers began planting winter wheat. Because of these delays and their impact on farmer decision-making, the NAWG is recommending that the current farm program authority be extended for one year, in the event that Congress has not enacted replacement legislation by July 1 of this year.

In this regard, we are aware that the Agriculture Secretary has triggered the mechanisms of underlying statutes which require a referendum of producers by August 1 on the acceptance of marketing quotas. In the past, this requirement in permanent farm program authority has routinely been suspended to give the Congress adequate time to develop new legislation. We have no objection to the development of standby legislation which could be enacted in the event negotiations on a new farm bill break-down.

I want to thank you for the opportunity to present the views of NAWG and I will be happy to respond to any questions at the appropriate time.

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Statement
by
John A. Schnittker, Washington, D.C.
before the SubCommittee on
Wheat, Soybeans, and Feed Grains
of the House Committee on Agriculture

Mr. Chairman:

Wheat, feed grains, and soybeans continue to be the key commodities in U.S. agriculture. They are grown on most of our acreage, are our principal export commodities, and they exert an important influence on the dairy, livestock, and poultry sectors. Grains and soybeans along with dairy products and rice are also the key commodity issues in the farm bill. This is so because of the central importance of export expansion as a result of this year's legislative decisions, and because price support programs for those five commodities usually account for 80-90 percent of all CCC costs. If limits on federal spending play a role in the 1985 farm bill, support and payment levels for grains, soybeans, rice, cotton, and dairy products will have to be adapted to budget allowances. What you do in this Sub-Committee is critical to the outcome of the farm bill debate this year.

I wish to comment on one bill, and a number of issues that are before you.

1. This Committee should report and Congress should pass HR 1614, to stop the wasteful and confusing 1986 wheat program announced by USDA. HR 1614 should be amended to make cancellation of announced marketing quotas and related procedures mandatory instead of optional. In fact, the bill should be used as a vehicle to terminate the so-called permanent wheat program. Farmers and the food trade should not be faced periodically with the threat that this obsolete program would go into effect for the first time some 23-24 years after it was enacted.

2. U.S. Competitive Position. It is essential that loan rates for 1986 crops be cut by about 10 percent to give our growers a better chance in export markets. The so-called Findley Amendment to the 1981 Act is a good vehicle for this, except that it is optional, and Secretary Block has already passed up two opportunities under this provision, to make our products more competitive. It would be better, in my judgment, if Congress would adopt, in principle, a version of the so-called "soybean formula", setting loans at 75-80 percent of recent average farm prices, but also providing yearly minimum loan levels for several years about as follows.

$/bu.	1985	1986	1987	1988
Wheat	3.30	3.00	2.85	2.70
Corn	2.55	2.30	2.20	2.10
Soybeans	5.02	4.80	4.70	4.60

3. Payments; Costs. Congress will need to set target price levels that are consistent with the budget for 1986, and will probably have to revise them as needed from year to year to meet the annual budget targets for CCC outlays. A target price schedule along the following may be appropriate, if CCC spending must be cut by about $8 billion in the 1986-88 fiscal years, based on language that will be debated in the Senate next week.

$/bu.	1985	1986	1987	1988
Wheat	4.38	4.00	3.75	3.30
Corn	3.03	2.75	2.60	2.40

4. Acreage Reduction. This program feature should be retained, despite its relative ineffectiveness. Set-asides at 20, 15, and 10 percent should be established by law for the 1986-88 crops (instead of the Administration's proposed 15,10, 5 for 1986-88 crops). The phasing-down of acreage reduction would coincide with the declining target price payments schedule above, which may be required on deficit reduction grounds, providing appropriate incentives for participation year by year.

5. Farm Credit Crisis. The steps I have suggested will not help the 43,000 farmers who are insolvent, or the 50,000 farmers with extreme financial problems (USDA Agr. Inf. Bul. 490). Even higher supports would do them little good. These farmers require tailor-made assistance, if any help at all can be devised. The half million family-commercial farmers not in serious financial trouble may see the value of their assets decline further in the next few years almost irrespective of policy, as past speculative value is squeezed out of land prices. This will not be caused by the farm bill I suggest nor can it be avoided by any feasible policy actions.

Testimony of
Robert J. Gray

Director of Policy Development
American Farmland Trust

Mr. Chairman, Members of the Subcommittee, I am Robert J. Gray, Director of Policy Development for the American Farmland Trust (AFT). The American Farmland Trust is a private, nonprofit organization dedicated to seeking solutions to conserving our soil, protecting our Nation's agricultural land base and promoting farming opportunities.

My purpose in testifying before this key subcommittee today is to discuss with you how a conservation reserve program can work in concert with the basic commodity programs to achieve a number of important farm policy objectives including; (1) helping financially strapped farmers (2) substantially reducing erosion on our Nation's cropland and (3) cutting the overall costs of our current commodity programs.

It seems clear to almost everyone that a greater emphasis on agricultural resource conservation in national policy is essential. Present government efforts are succeeding in reducing only a small fraction of the erosion problem. Furthermore, much of those efforts in the past have focused on lands where erosion is not a serious concern. Moreover, past conservation efforts have been pursued as a separate goal apart from the basic commodity programs, limiting their scope and effectiveness. For example, the Soil and Water Resource Conservation Act declares a policy goal of resource sustainability, but this specific purpose is limited to conservation programs, rather than its application to all USDA programs or government programs in general. Similarly, the Agriculture and Food Act of 1981 declares it is national policy "to promote soil and water conservation, improve the quality of the Nation's waters, and preserve and protect natural resources." It proposes to achieve this "through the use of effective conservation and pollution abatement programs." The effect appears to leave conservation concerns to specific programs, while managing other programs independently of their effect on resource problems.

Such an approach is ineffective. When price support policies encourage farmers to plow up fragile land, resource conservation goals are seriously undermined. When acreage diversion programs are adopted without adequate attention to conservation, the government wastes valuable opportunities to control erosion. Therefore, an effective solution to agricultural resource problems requires that they be considered in the context of overall production and farm policies.

Integrating Conservation and Commodity Policy

Central to this approach is a new national policy for agricultural resource conservation. Through such a policy, the maintenance and improvement of both he productivity and quality of the Nation's soil and water resources would become a central aim pursued through all activities of USDA and other agencies of government.

It would also directly integrate commodity programs with conservation policy. The first step is to adopt strong "sodbuster" legislation denying program benefits to farmers who bring fragile land into crop production. Secondly, AFT recommends that 30 million acres of the most highly erodible cropland presently in use would be bid into a long-term conservation reserve to facilitate its conversion to sustainable productive uses. For this reserve, farmers would bid for contracts to remove land from intense crop production for ten years. At the end of the contract period, the land would be permanently removed from the acreage base (land eligible for commodity program support).

Other key provision of a conservation reserve would include:

-- limiting eligible erosion prone cropland to that land which has been planted in one of the 8 major farm program crops for 3 of the past 5 years;

-- determining the potential for erosion by using the Universal Soil Loss Equation and the Wind Erosion Equation;

-- capping payment limitations any individual farmer could receive through conservation reserve contracts;

-- allowing landowners to hay, graze or cut timber from land placed in the conservation reserve; and

-- making annual rental payments either in cash or in-kind.

In order to ensure that the conservation reserve is effectively integrated into the commodity programs it will be necessary to:

(1) Establish close coordination between the Resource Conservation Title of the 1985 Farm Bill and the Wheat, Feed Grains and Cotton titles by amending these latter titles to include provisions for establishing a long-term conservation reserve.

(2) Utilize the borrowing authority of the Commodity Credit Corporation to finance the cost of the conservation reserve.

The conservation reserve would serve as a cornerstone of a new long-term agricultural policy which recognizes we are now in a highly competitive world economy. As one of the world's leading suppliers of wheat and feed grains we know we will have to respond to rapidly changing world economic conditions. We also know that at this time there is a need for some means to reduce the acreage planted to wheat and feed grains. However, we need to move away from total reliance on annual acreage reduction programs because these programs serve no real purpose. They do not significantly reduce production due to "slippage" -- the tendency for the government to pay to remove an acre from production, but get less than an acre's worth of production control.

There are several reasons why the conservation reserve would be more efficient.

The first is the use of a bid procedure. If yields are lower-than-average on the land a farmer offers from the reserve, the bids the farmers offer will have to be scaled down accordingly. Under current programs, the government often pays the full price of diverting land of average productivity, yet allows farmers to divert their least productive land. In fact, in the 1983 program, some farmers were allowed to place nonirrigated land in the conservation use acreage (set-aside or diversion), but received payments scaled to irrigated yields. A bid system would eliminate "slippage" of this type. According to USDA program analysts, where bids were used in the 1983 PIK program, they tended to be lower for less productive land.

The second improvement in efficiency would arise from the selective, long term retirement of specified tracts of highly erodible land. Under current programs, farmers have many opportunities to satisfy set-aside requirements of crop programs with their least productive land. This is because any land in a farm's base acreage can be used to satisfy the set-aside requirement, and the specific tract generally need not be designated until just before the final compliance date for the program -- and that date is usually quite close to harvest time. For example, if a 10 percent set-aside/diversion is required for the wheat program, farmers will often plant most of their farm to wheat, then observe which fields grow best as the season advances. Just before the final compliance date they can mow or clip the fields where yields seem lower, designate this land for set-aside or diversion, and still comply with the program. A corn grower may plant very wet land which, if its yields are low and it is not harvested, can be used to satisfy set-aside requirements for a corn program. If yields are high, the farmer can designate other unharvested land, or simply drop out of the program without penalty. Obviously, long term contracts to retire specific tracts of highly erodible land would eliminate this type of slippage in a conservation reserve.

There are many strong arguments in favor of incorporating a conservation reserve provision into the commodity titles of the 1985 Farm Bill. The savings in soil erosion are enormous -- as much as 600-700 million tons per year in a 30 million acre reserve -- 10 times more than is being saved through the current cost-sharing and technical assistance programs being administered by SCS and ASCS. It would also quickly get money in the hands of farmers at a time when they can certainly use it -- and at the same time, it will help reduce surpluses of wheat, soybeans and feed grains.

The main question asked by most people is how much will it cost? AFT has done a great deal of analysis on the cost of a conservation reserve. We have found that there would be signficant cost-savings through the conservation reserve program.

I would like to discuss these in more detail with the subcommittee.

We anticipate three general types of savings. (1) First, deficiency payments to farmers would be reduced substantially because of the price-enhancing effect of retiring at least 17.4 million acres of wheat, 10.5 million acres of feed grains, including soybeans, and 2.1 million acres of cotton over the next few years.

(2) Second, direct diversion payments to farmers also would be reduced, because the conservation reserve would retire erosion-prone land on a lowest-bid basis. We're substituting diversion payments -- which are pegged to average yields and set at the national level now -- for conservation reserve bids, which will be pegged to the productivity of the land farmers actually retire.

(3) Third, direct storage payments made through the Farmer Owned Reserve (FOR) will be reduced because there will be less need for government-subsidized, farmer-held stocks. Now let's look at these cost estimates in somewhat more detail.

THE COST OF A 30 MILLION ACRE CONSERVATION RESERVE

The American Farmland Trust proposes that up to 30 million acres of farmland that is especially vulnerable to erosion damage be entered into a ten-year land reserve.

The cost of such a program is estimated below in the context of the expected performance of U.S. agriculture—production, consumption, and prices during the five years, FY 1986-90.

Without attempting to predict these economic events, they are projected from the current crop year through the life of the 1985 farm bill. The projections are based on estimates of domestic and international economic conditions, assuming first that current policy is unchanged, and then that a ten-year cropland reserve is implemented. Comparisons of economic performance of the agricultural industry and the cost of selected farm programs are the basis for evaluating the cost of the long-term reserve.

The analysis focuses on eight major crops: wheat, corn, sorghum barley, oats, rye, soybeans, and cotton. It begins with an examination of world and regional supply and demand estimates for each commodity, and from these, U.S. export sales are projected. Domestic consumption trends are similarly projected on the basis of income and population trends, but include adjustments for recent developments, especially in industrial and livestock feed use. Production is based on trends in area and yield, constrained by specific assumptions about policies and programs.

o Domestic use of cereals, oilseeds, and cotton in the United States is based on consumption levels during 1980-82 augmented by responses to income and population growth over time, with income elasticities based on estimates published by the Economic Research Service, USDA. 1/ Industrial use of corn and other grains is projected on the basis of recent trends and GNP growth rates as well as national policies.

- Feed use of grains and oilseed meals is based on estimates of animal product consumption, with feed and meal use ratios assumed constant during the next five years.
- Seed utilization is projected on the basis of the area sown, assuming seeding rates that prevailed during 1975-82.
- Export demand estimates are derived from supply, use, and trade projections for each region of the world, and depend largely on world economic and population growth and national policies.
- Crop production estimates depend on the size of the cropland base, technology (as reflected in yields), and policies. Projected production for the next five years is based largely on trends in the development and adoption of technology and government programs. Producer participation in programs is estimated on the basis of the economic outlook and requirements of the program. The annual acreage base for each crop is based on the land base in the previous year, the economic outlook, and program requirements. Planted area is the acreage base minus any diverted area. Harvested area estimates depend on historical crop abandonment ratios. Yields are estimated from 1964 to 1982 trends.

In assessing the cost of the long-term cropland reserve, it is first assumed that current programs are continued:

1/ Alternative Futures for World Food in 1985, Volume 3, World GOL Model Structure and Equations, FAER No. 151, ESCS, USDA, June 1978.

- Price support loan rates remain at levels set for FY 1984/85 except for those commodities for which loan rates are set by market price formulas (cotton and soybeans).
- Price deficiency payments continue, with target prices frozen at FY 1985 levels and payment limitations continue at $50,000 per farm.
- Both voluntary set-aside and paid diversion programs continue and are used when production surpluses are anticipated. Land diversion payments continue the flat rate offer system, with payment based on a per bushel rate and the yield history of the diverted land.
- The farmer-owned reserve (FOR) is continued with the same operating rules as in FY 1985. No special FOR loans are offered, interest is charged for the first year, and storage payments per bushel are unchanged.
- Current resource conservation programs are continued with no major changes. The annual budget of about $1 billion is used for technical assistance for individual farmers, for conservation cost sharing, and for small watershed development.
- Current levels of export market competition continue, along with current export promotion programs.

The projections begin with the FY 1986 crops, with conditions from 1985 crops determining the economic starting point. In the absence of bad weather, the first year of the new farm bill would be expected to begin with markets somewhat weaker than they are in the current year.

With the assumed external conditions in large part dictating domestic and foreign demand, the farm sector likely will continue to face significant economic pressures until near the end of the period. Both export and domestic markets are likely to be large and growing moderately, but overshadowed by large production potential. Only during FY 1988 and later would world economic growth begin to strengthen export markets and domestic prices perceptibly.

Significant economic pressure from interest rates and capital costs will continue. This squeeze would affect farmers who are most debt-leveraged. Special dept relief programs could be expected.

During the third and fourth years of the program, world markets are expected to strengthen as recovery becomes stronger. Markets for U.S. products will expand and commodity use move closer to production, allowing slightly declining stocks and stronger prices.

Under a continuation of current policy, government programs would be expected to play very important roles for the coming five years and longer. Between 26 and 31 million acres of cropland would be diverted each year under annual programs, an average of nine percent of the cropland base. The cost of the paid land diversion, target price, and commodity storage programs required to divert this land would average about $5.2 billion annually, exclusive of the cost of resource conservation programs, export development programs, and change in the level of CCC loans.

The Cost of a 30 Million Acre Conservation Reserve

Following the evaluation of the performance of the sector under the continuation of current policy, it was evaluated for the same period with all of the foregoing assumptions unchanged, except that a long-term conservation reserve is assumed to be authorized and implemented.

- The reserve would include only eligible land, designated by soil experts in terms of its vulnerability to erosion damage.
- Land in the program is to be planted to conserving crops and timber for ten years. It may be grazed, and hay crops and timber harvested.

At the end of the ten-year period, it is to be ineligible for basic commodity programs.

- Owners would be invited to offer land for inclusion in the program, and specify their bid prices per acre. Based on previous long-term conservation programs, the average per acre cost of a 30 million acre reserve is assumed to be $44.
- Land included in the long-term reserve is assumed to be distributed by crop as follows:

	Percent	Million Acres
Wheat	58	17.4
Feed Grains	35	10.5
Cotton	7	2.1
	100	30.0

The cost of the program was estimated assuming that all current commodity programs continue to operate, including the price support loan program, the voluntary and paid land diversion program, and the farmer-owned reserve program.

The projections assume that as land is shifted into the LTCR, the paid diversion program is reduced and limited voluntary set-aside programs continue. As a result, the total amount of land diverted is increased, planted area reduced, prices strengthened, and costs reduced compared to a continuation of current policy.

Changes in program costs under three sets of assumptions follow:

- The LTCR is established and 30 million acres diverted during FY 1986. Over the five-year period, program costs would be $6.4 billion lower (Table 1). The cost of the LTCR alone would be about $0.6 billion greater than the cost of the paid diversion program alone, but the

$7.0 billion savings from other programs would more than offset the increase in direct land diversion costs.

Table 1. Five-Year Program Costs and Savings, 30 Million Acre LTCR

Item	1986/87		1987/88		1988/89		1989/90		1990/91		Total CCP	Total LTCR	Total Savings
	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR			
	- - million dollars - -												
Deficiency	3,849	2,479	3,933	2,449	3,621	2,404	3,403	2,129	2,847	1,524	17,653	10,985	6,668
Storage	483	472	496	473	470	420	430	353	410	274	2,289	1,992	297
Diversion	1,092	0	1,113	0	1,285	0	1,300	0	1,197	0	5,987	0	5,987
Conserv. Reserve	0	1,320	0	1,320	0	1,320	0	1,320	0	1,320	0	6,600	-6,600
Total	5,424	4,271	5,542	4,242	5,376	4,144	5,133	3,802	4,454	3,118	25,929	19,577	6,352
Savings		-1,153		-1,300		-1,232		-1,331		-1,336		-6,352	

- o The LTCR is established, but built to 30 million acres over three years (10 million acres per year). All other policies are the same as in FY 1985.

Over a five-year period, program costs would be $4.1 billion lower. The LTCR itself would cost $0.7 billion less than the diversion program it would displace. This option would save less than if the loan program were operated immediately at the 30 million acre level and for the full five years because the impact on commodity prices would be smaller. The savings from reduced target price payments would be less than half as great (Table 2).

Table 2. Five-Year Program Costs and Savings, LTCR Increased to 30 Million Acres in FY 1989

Item	1986/87		1987/88		1988/89		1989/90		1990/91		Total CCP	Total LTCR	Total Savings
	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR			
	- - million dollars - -												
Deficiency	3,849	3,849	3,933	3,933	3,621	2,517	3,403	2,260	2,847	1,892	17,653	14,451	3,202
Storage	483	483	496	496	470	451	430	380	410	327	2,289	2,137	152
Diversion	1,092	0	1,113	0	1,285	0	1,300	0	1,197	0	5,987	0	5,987
Conserv. Reserve	0	440	0	880	0	1,320	0	1,320	0	1,320	0	5,280	-5,280
Total	5,424	4,772	5,542	5,309	5,376	4,288	5,133	3,960	4,454	3,539	25,929	21,868	4,061
Savings		-652		-233		-1,088		-1,173		-915		-4,061	

- o The LTCR is established and built to 30 million acres over three years. In addition, all commodity price support loans and target prices are reduced five percent each year (Table 3).

The reduction in program costs is far greater under this option than the others, $13.6 billion. The direct LTCR costs are $0.7 billion less than the direct diversion program it replaces, and the likely reduction in target price and storage payment costs would add to $3.4 billion, for a savings of $4.1 billion from the LTCR alone. In addition, lowering target prices and loan levels would save about $9.5 billion, for a total savings of $13.6 billion.

Table 3. Five-Year Program Costs and Savings, LTCR Increased to 30 Million Acres in FY 1989, Target Price and Loan Levels Reduced Five Percent Annually

Item	1986/87		1987/88		1988/89		1989/90		1990/91		Total	Total	Total
	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	Savings
						- - million dollars - -							
Deficiency	3,849	2,644	3,933	1,681	3,621	397	3,403	154	2,847	80	17,653	4,956	12,697
Storage	483	483	496	496	470	451	430	380	410	327	2,289	2,137	152
Diversion	1,092	0	1,113	0	1,285	0	1,300	0	1,197	0	5,987	0	5,987
Conserv. Reserve	0	440	0	880	0	1,320	0	1,320	0	1,320	0	5,280	-5,280
Total	5,424	3,567	5,542	3,057	5,376	2,168	5,133	1,854	4,454	1,727	25,929	12,373	13,556
Savings		-1,857		-2,485		-3,208		-3,279		-2,727		-13,556	

We would be glad to develop additional cost estimates in the future.

I appreciated the opportunity to testify and would be pleased to answer any questions.

Statement of

Kenneth A. Cook

Mr. Chairman, distinguished Members of the Committee. I am Kenneth A. Cook, a writer and analyst in food and agricultural policy, specializing in resource and environmental issues. I was the principal writer and analyst for the 1984 American Farmland Trust report entitled Soil Conservation In America: What Do We Have To Lose? and of a recent handbook on the 1985 farm bill published by the Sierra Club. Over the past few years I have written over 30 articles on policy matters for the Journal of Soil and Water Conservation. This year I am working for a number of organizations, all of which are participating in the 1985 Farm Bill debate in one way or another, including the American Farmland Trust, the National Audubon Society, the Sierra Club, the Board on Agriculture of National Academy of Sciences, and the Roosevelt Center for American Policy Studies. The views I will express today are, of course, strictly my own.

Just a few weeks ago, Secretary Block told the full House Agriculture Committee that "there are really only three options available to the Congress: an extension of current programs; mandadory controls; or a flexible market-oriented approach," this last "option" being Secretary Block's Agricultural Adjustment Act of 1985.

There is another option for the major crop programs, Mr. Chairman: the soil conservation reserve. I believe that Secretary Block and many top officials in USDA think the idea of a conservation reserve makes sense, and they would have offered it as an option, had not the Office of Management and Budget (OMB) vetoed it.

I believe I know why the OMB objected. They prefer not to make a committment to any long-term policy for U.S. agriculture that will cost money. That was the thinking behind the "low-cost"--and totally ineffective--1982 crop programs that spawned the enormous 1983 programs, including PIK.

The conservation reserve is premised on the assumption that events beyond the control of American farmers and agricultural policymakers--a strong dollar, debt servicing problems of our LDC customers, government subsidies in nations competing with us in agricultural markets--combined with average yields and the stocks we already have will add up to excess capacity for wheat and feed grains over the next few years. Some degree of acreage adjustment will be needed.

The establishment of an effective conservation reserve would would mean that instead of starting from scratch each year--with too many acres in production and a very high price tag to yank 30, 40, or 76 million acres out of production one year at a time--we would narrow the average gap between supply and demand by pulling out of production some of our high cost of production, marginal, erosion prone acres out of production for at least 10 years.

A companion measure, a strong "sodbuster" policy, would discourage more of such land from coming into crop production and further aggravating our crop surplus problems. The sodbuster policy would deny USDA program benefits to anyone who brings into crop production highly erodible land that has not been cultivated during a designated "grandfather" period.

The beauty of the conservation reserve program and the sodbuster policy is that they would serve two goals of farm policy simultaneously: conserve soil and help balance the supply of major crops with fluctuating demand.

Frankly, if the conservation reserve did not have a role to play as a more efficient means of production adjustment, it would be unthinkable in our current budget situation. That is a sad but immutable fact of life for those of us concerned about long-term issues like soil conservation that never get on the main agenda of "emergency" farm policy we've had for about a half century now.

Yet the potential soil conservation benefits of the conservation reserve and sodbuster would be enormous. Looking at the acreage already in production, Mr. Chairman, by converting the most erodible 6 percent of the wheat acreage, we could cut nationwide erosion on wheat land by 31 percent a reduction of 130 million tons, which is equivalent to about twice the total amount of erosion on all agricultural land in the State of Washington. A 2 percent reduction of our most erodible corn acres would save over 140 million tons (22 percent of the total on corn land), and for soybean, a 3 percent acreage reduction could yield as much as a 28 percent reduction in erosion.

How would the conservation reserve program and sodbuster policies work?

First, the conservation reserve. We now have a solid, technical capability to identify erosion-prone land. Some 40-50 million acres would be eligible for a conservation reserve. Farmers would apply for the program, local SCS or conservation district officials would certify the land as erosion prone, and farmers would submit bids in the amount they'd accept to take it out of production. ASCS would accept the lowest bids first, as they did with the whole-farm-bids in 1983, and within one year, land in the reserve would be protected from excessive soil loss. We should aim for a reserve of 30-40 million acres in the next 3-4 years.

Bob Gray has already described the savings we could anticipate in farm program costs. The soil conservation reserve would result in lower deficiency payments. Lower storage payments for the Farmer Owned Reserve. Diversion payments would in effect be replaced with conservation reserve payments that would buy out more land for the same federal dollar--and they would buy it out at a reasonable price for ten years, not just one year.

How about the sodbuster policy? Farmers would be required to report to the local ASCS office prior to cultivating any land that has not been cultivated since 1981. If that land is highly-erodible, as defined by the sodbuster policy, they would be informed that cultivating it would cause them to forfeit their right to participate in most USDA programs for all their land, unless they immediately implement sound conservation practices on that new land. By 1989, I believe we should implemtne the sodbuster policy to effect all land, including land that has been in crop production since 1981.

We need a tough policy like this to strongly discourage additional highly erodible land from coming into production--the current rate is about 600,000 to 800,000 acres each year. We cannot tolerate more strain on our already overstrapped conservation programs. And the crop programs will never be efficient if we endlessly bloat our acreage base with marginal land. By phasing in the sodbuster policy on all land by 1990, we can provide a strong incentive to farmers to enroll in the conservation reserve.

I would like now to describe the sodbuster policy in more detail.

KEY PROVISIONS OF THE SODBUSTER POLICY

LAND AFFFECTED

Highly erodible land that has not been cropped in any of the 5 years immediately preceeding enactment of the policy and certain wetlands. Highly erodible land cultivated at least once since 1981 would be exempt through 1990. That represents a shortening of the grandfather period from the 10-12 year period found in nearly all sodbuster legislation introduced to date.

Furthermore, in 1990, the sodbuster policy should be extended to apply to all highly erodible land regardless of when it was brought into production. In effect, we would provide farmers with a 5 year grace period in which to adequately control erosion on that land, enroll it in the conservation reserve, retire the land from production on their own, or risk losing their eligiblity for USDA program benefits on any land they own or have any financial interest in.

DEFINITION OF HIGHLY ERODIBLE LAND

Studies by AFT, USDA, and sponsored by the National Academy of Sciences and many others have shown that the Land Capability Class System is excellent for on-farm conservation planning, but fatally flawed for implementation of nationwide policies or programs aimed at highly erodible land (or "erosion-prone" land in the case of the conservation reserve). *We disagree strongly with USDA's current position on the sodbuster definnition, which is to continue to use the capability classifications.*

We propose instead that sodbuster policies will apply to any land not cultivated since 1981 on which the potential for sheet, rill or wind erosion exceeds a specified rate in relation the established USDA soil loss tolerance (T value) for that land.

There are very important reasons why this change is needed:

1. The land capability class system was never designed for nationwide policies or programs where money is at stake. It was designed to help farmers plan conservation practices on their own farms. The system was not planned to be consistent nationwide--and it isn't.

2. According to the Department's own analyses, if sodbuster sanctions are applied to land using the LCCS classes IVe, VIe, VII and VIII, we'll exempt most of the land that will have very high rates of erosion if it's brought into cultivation. For example, according to USDA about 600,000 acres of subclass IIe and IIIe land brought into production between 1979 and 1982 had wind or water erosion rates greater than 14 tons per acre per year--more than twice the national average rate on cropland already in production. This land would be exempt from the

sodbuster bill under the USDA capability class definition. Only about 450,000 acres in classes IVe-VIII--the USDA defintion--had erosion rates this high when it was brought into cultivation over the same period.

So a farmer with IIe or IIIe land that will have very high erosion losses if it is cultivated will be exempt from the sodbuster sanctions. His neighbor, who may happen to have IVe land with that will not erode excessively if cultivated, will be penalized.

3. We agree with USDA that some farmers are familiar with the capability classes, but that's no reason to use those classes in a way that would be unfair to many farmers. The purpose of a sodbuster definition should not be to save SCS from a modest amount of field work. Where money is at stake, farmers are entitled to the best, most scientifically defensible criteria of erosion problems we can manage in the field. If very brief field visits are required to assure farmers a fair shake, so be it. SCS technicians are very familiar with the erosion equations--they applied them at over 800,000 sample points nationwide in the 1982 National Resources Inventory. Checking compliance on a sodbuster policy will be a very good use of their time. Especially when one keeps in mind the amount of technical assistance that would be required to correct erosion problems on land that an effective sodbuster would discourage from being cultivated.

4. To our knowledge, the LCCS has never been tested in court. The use of a soil loss equation to identify erosion

problems has been tested--and upheld--by the Iowa State Supreme Court as a scientifically and technically defensible way of identifying serious erosion problems.

DEFINITION OF WETLANDS

A task force of wildlife experts are now evaluating a suitable definition to apply sodbuster to wetlands.

PENALTIES

Violators of the sodbuster policy will be free to farm without further government "interference"--no price supports, no deficiency payments, no disaster payments, no crop insurance, no USDA credit, no technical or financial assistance for conservation on any land they farm or have a financial interest in. Furthermore, many of us will be working hard to introduce legislation in this session to eliminate provisions of the federal income tax code which now make a moneymaker out of sodbusting, wetlands drainage and other land-abusing farming practices.

EXEMPTIONS

Farmers would be exempted from sodbuster penalties if they immediately devise and implement a conservation plan for highly erodible land they bring into production, such that erosion rates will be brought below the official USDA soil loss tolerance (T value) assigned to that soil within 2-3 years

VERIFICATION AND SPOT CHECKS

Farmers would be required to report to the local ASCS office prior to cultivating any land that has not been cultivated since 1981. If that land is highly-erodible, as defined by the sodbuster policy, they would be informed that cultivating it would subject them to sodbuster penalties. Spot checks would be used to guard against violations of the reporting requirement.

Mr. Chairman, I would be happy to answer any questions you or other Members of the Committee may have about my testimony. Thank you.

NATIONAL
GRAIN & FEED
ASSOCIATION

STATEMENT OF

NATIONAL GRAIN AND FEED ASSOCIATION

ON

WHEAT, SOYBEANS AND FEED GRAINS

BEFORE THE

SUBCOMMITTEE ON WHEAT, SOYBEANS AND FEED GRAINS

COMMITTEE ON AGRICULTURE

U. S. HOUSE OF REPRESENTATIVES

BY

MARSHALL FAITH

APRIL 18, 1985

Mr. Chairman and Members of the Subcommittee:

My name is Marshall Faith. I am President of Scoular Grain Company, Omaha, Nebraska. I serve as chairman of the Agricultural Policy Committee of the National Grain and Feed Association, which I represent in my appearance today.

The National Grain and Feed Association is a voluntary association of grain and feed firms. The operations of our 1,250 members include country elevators, terminal elevators, processors and exporters. There are 48 state and regional grain and feed associations affiliated with the National Grain and Feed Association that represent upwards of 10,000 grain and feed companies nationwide. Our members provide the marketing system needed to distribute our country's abundant agricultural production from producers to both domestic and foreign consumers.

Post Office Box 28328 · Washington, D.C. 20005 · Telephone 202/783-2024

We appreciate the opportunity to appear before you today to present our Association's view on an issue that we consider to be most important and timely. Indeed 1985 farm legislation will play a significant role in the future of everyone involved in U.S. agriculture.

Our markets for wheat, soybeans and feed grains are in a very depressed situation.

--This year, the United States will export 54 percent of the total world trade in feed grains. In 1979, the U.S. share of that market was 72 percent.

--This year, America will export 36 percent of the world wheat trade, compared to 48 percent in 1981.

We could look at soybeans or any other bulk agricultural commodity. The situation is much the same -- over the last 4 to 5 years, the best markets we have are stagnant. Most agricultural markets, particularly export markets, are on a decline, and we probably have not seen the worst. Serious students of export markets are predicting that U.S. wheat exports could be less than 25 percent of the total market next year. We think it is very likely that total exports of wheat, corn and soybeans for 1985-86 will drop below the 4 billion-bushel level, the lowest level in 10 years and, potentially 25 percent under the peak of 1979-80. These figures are alarming.

As U.S. agriculture has become dependent on export markets, the income prospects of farmers are inexorably linked to exports. We firmly believe that because of this linkage between the health of export markets and farmer income, the challenge ahead is to develop farm programs that foster growth in total demand rather than inhibit our ability to compete.

The problems with our markets are very familiar. The world is just beginning to fully recover from recession and debt-ridden countries are in many cases still strapped for cash. Unfair trading practices of certain nations have also taken away some traditional markets, but the effects of subsidized competition have probably been overstated. A large majority of exporting nations employ no such practices; Argentina, for example, even taxes agricultural exports.

By far the two most influential factors eroding the U.S. export competitiveness since 1980 have been the increased value of the dollar and domestic agricultural programs. These two factors have worked in tandem to price U.S. grain out of world markets. In some cases, U.S. grain prices today are one-third higher than grain from foreign sources. With this kind of price spread, there is little question why importing nations are cancelling so many orders for U.S.-origin grain. At current prices for U.S. and foreign produced grain, there are strong incentives even to import grain into the U.S.

Taking Corrective Action

Certainly a lower valued dollar in relationship to other major world currencies would help the U.S. become more competitive, but the run-up in the dollar's value would have considerably less influence if domestic farm policies were more flexible. Until the U.S. adopts a system of flexible price supports in its agricultural programs, our export competitiveness will continue to be adversely influenced by fluctuating currency exchange rates.

Fluctuating currency markets are a reality in world trade and will continue to be a major factor in industries dependent on exports. Surely as the dollar has inflated in value, it will eventually retreat again and probably go through many more ups and downs in the distant future. However, it would be a serious mistake to simply wait until the dollar falls in value or to believe it would fall far enough to correct the problem in our competitiveness worldwide. The basic reasons for the dollar's strength — a large deficit and growing U.S. economy — are unlikely to change anytime soon.

We support and commend the Congress in its efforts to trim deficits. Making the hard decisions necessary to restore fiscal responsibility will greatly help both export competitiveness and farm incomes in the future. But recognizing political realities, this deficit reduction process and the resulting impact on the dollar, will take several years. U.S. agriculture cannot afford to wait.

Restoring Export Growth and Prosperity to U.S. Agriculture

For fifty years, we have operated under the same kind of farm programs. For fifty years we have had variations of loan rate programs, income support payments and land diversion. In 1985, we find ourselves continuing our struggle to make these outdated programs work in a totally different environment. We are in a new ball game and the old rules do not fit.

The international system of fiscal exchange rates went by the wayside in the early 1970s. Many foreign nations have become highly efficient food producers. Many others are striving for self-sufficiency. These developments and the new openness of the world economy have made our policies of rigid farm programs obsolete. Our loan rates no longer just guarantee prices to American farmers, they now guarantee prices to the world. And at today's exchange rates, those price guarantees to foreign competitors are very attractive. Our acreage reduction programs do not raise U.S. prices anymore. U.S. acreage reduction programs invite our export competitors to increase plantings to supply markets that we voluntarily give up by diverting land.

To continue these policies or make cosmetic changes in our farm programs would be irresponsible. If we fail to make substantive and constructive changes in programs that are fundamental causes of declining exports and farm income, the American farmer will be the loser. Neither can these changes be gradual. Such delay tactics will only cause greater losses in markets and prolong the economic pain.

A Farm Program for Recovery

Regardless of what farm policy decisions are made in 1985, we believe U.S. agriculture faces difficult economic times ahead for at least the next two years. We believe this is true because of two basic facts. First, it will take some time for markets to recover. Even if we immediately stopped giving export competitors price guarantees, these countries have their agricultural sectors in high gear. It will take time before we see foreign production responding to U.S. policy actions. Secondly, we know that federal budgets for agriculture are not unlimited. If they were, the short term income pressures of producers could be completely eliminated by income support measures.

Because of these constraints, we firmly believe that the difficult economic times in the short term cannot be avoided, *regardless* of government farm policy decisions. However, we also believe that with the correct policy prescription in 1985, U.S. agriculture can begin the recovery process.

What we need in 1985 legislation is a program that can make the needed adjustments in agriculture as quickly as possible. With the right policy, economic recovery can begin in two or three years. If we delay or devise the wrong programs, recovery will only be delayed to 5 years or more. We need a program that makes the best use of government monies that are available to sup- support farmer incomes through the necessary adjustments. Finally, and very importantly, we need a program that is fair to producers. The next farm bill should be out front with producers. They need to know at the outset that Congress does not have a limitless budget to use to buy back instant farm prosperity. Producers deserve to know as early as possible what kind of income support will be available from government in the next few years. We think that the right farm policy for 1985, and the one that is most acceptable to farmers, is one that offers the best hope of recovery in the shortest time frame and a program that lets the farmer know how much government support he can expect in the next few years so that he can plan efficiently.

The most important change in farm policy that must be made in 1985 is the swift elimination of programs that artificially support prices and hold U.S. grain off the market, both of which seriously impede our ability to compete. There are several parts to this kind of policy adjustment. It encompasses loan rate policy, land diversion and reserves.

Loan Rate Policy

— Loan rates must be related to the market and to make the U.S. competitive again in export markets, the adjustment in loan levels should be done as rapidly as possible. Based upon current world price levels, loans set at 70 percent of the average of the previous three-year market prices would do the most to lead to rapid recovery in export markets.

-- To make loan rates truly market oriented, recourse loans would be preferable to non-recourse. However, if non-recourse loans are continued, the government should change its policy on interest repayment. Interest should be charged on commodities forfeited to the government. If loans are paid back, interest should be forgiven. This policy change would eliminate the artificial escalation in support levels caused by interest accumulation that results in greater forfeitures to CCC.

Land Diversion

-- Land diversion policy is critical to future U.S. competitiveness. PIK and other acreage reduction programs since 1980 have inhibited our ability to compete at least as much as excessive loan levels. In addition, promoting reasonably full use of our agricultural capacity is in the national interest. A large part of the agricultural industry lies beyond the farm gate. The U.S. has been able to capitalize on market opportunities because private industry and farmer-owned cooperatives built an efficient infrastructure to supply inputs and market farm outputs.

We have to remember that this efficient marketing system is not a permanent feature that will always be ready if and when we are ready to use it again. Our export capacity is currently being utilized at less than 50 percent of capacity. If this continues for any appreciable length of time, and it will if we do not change farm programs, capacity will shrink. Even more important, every year we continue our current program structure, we encourage our competitors to build more handling facilities and more efficient infrastructure that will make them even more formidable competitors in the years ahead. For these reasons, all acreage reductions and set-aside authorities should be eliminated.

Grain Reserve

-- Some form of a strategic reserve of grain to avoid food shortages is a necessary and justifiable expenditure of public funds. But the current program needs to be changed. Under current rules, the reserve can be used just like loan rates and acreage reduction to create artificial shortages and artificial price support. Even though such artificial price support is extremely short-lived in open world markets, our competitors respond accordingly -- planting more to sell in world markets.

We urge the following changes be adopted in the reserve program:

-- The reserve needs to be capped at a level so that stocks do not become excessive, possibly 15 percent of annual wheat utilization and 10 percent of annual feed grain utilization.

-- Incentives for grain entry into the reserve need to be lowered to avoid the situation of artificial price support through the reserve.

-- Release triggers for the reserve should be abolished. Having pre-established release levels can create artificial market shortages. In the last year, the U.S. has imported Canadian wheat because release prices created artificial barriers restricting the exit from reserve of selected wheat types needed by U.S. processors.

Income Support Payments

-- If a market-oriented loan is implemented in 1985 legislation, direct payments will be needed. They should be more generous in the early years of the program because this is when the greatest income pressures for producers will come.

-- The most important thing about addressing deficiency payments or other direct government payments to farmers in a market-oriented program, is that the linkage between income supports and price supports be broken. The target price concept does not accomplish this because there is great temptation for government to control acreage to raise prices temporarily in order to reduce budget exposure.

-- The best and fairest way for these direct payments to be made is also the simplest. Income support payments should be made directly to farmers on a per-bushel or per-acre basis on 1985 base acreage with no stipulated requirements for planting the crop to receive payments. Payments should be set at pre-specified levels that are unrelated to market price or any other factor. In short, budgetary limitations should determine what can be afforded. They should be gradually phased down over three years, but farmers should know what the payments are at the outset. This will provide a gradual phase-out of the income payments for those commodities where payments are now being made in the form of deficiency payments. The payments will be known for three years which will help producers plan. If the payment levels will not provide adequate income, farmers will have the opportunity to plan how to get out of farming during this adjustment period or to invest further if they find it profitable. Having the payments set on 1985 base acreage will keep the income support from interfering with planting decisions which will be determined by market signals, as they should be.

There are other changes in programs that would help make the U.S. more competitive in export markets, but these are fundamental changes that we believe are absolutely necessary if we are going to start to rebuild U.S. markets and producer income.

We know these changes will not be palatable to some in U.S. agriculture. Those that think we should retrench U.S. agriculture and grow grain only for domestic markets by raising support rates and controlling acreage through government mandate will be dissatisfied. But what these people fail to realize is that retreating from world markets is not so easy in an open world economy.

Maybe we could initially retire 50 percent of our farmland, 50 percent of our productive assets and forget about all the associated adverse impact on the national economy in terms of GNP and employment generated by exports. But the process only begins there. Grain and food prices would have to continue to be escalated to support asset values. As price differentials widen between domestic U.S. prices and prices for grain from foreign sources, economic pressures for importation of grain and food would grow. Maybe if the U.S. started importing grain, we wouldn't need to use the entire 50 percent of our productive agricultural assets. Eventually, maybe 25 percent or even 10 percent of all current agricultural assets could be adequate to meet U.S. consumption needs above the levels we could import.

This kind of isolationist policy is not very sound for the reasons just mentioned. But, ironically, our present policies -- those policies embodied in the Agriculture and Food Act of 1981 -- are most assuredly driving us toward isolationism. The process is one of gradual isolationism, moreover, one of slow death for agriculture. The process has to stop and 1985 is the year to do it.

If we choose to continue this path toward isolating ourselves from world markets through support levels, acreage diversion and other means, it is important to fully understand the implications. The economic activity generated from agriculture is very large and a great portion of this activity is beyond the farm gate. In 1982 food and fiber production in the U.S. had a total value of $627 billion and provided 24 million jobs, about one-fourth of total employment in the U.S. It also accounted for 20 percent of Gross National Product. Only three million of the 24 million jobs in agriculture were actually on farms and ranches.

Obviously, national interests broader than only production agriculture are at stake in this farm bill debate. But fortunately, there are no policy conflicts in what is right for producers and what is right for agribusiness and related industries. If we do not pursue policies to regain our competitiveness and use our agricultural resources as they were intended -- to produce grain efficiently -- then everyone in agriculture loses.

The government and producers need to form a partnership to get out of this policy quagmire that threatens the future of U.S. agriculture. Government programs have created much of the problem. The government needs to pay part of the cost to get us out of the mess.

The interim income payments made to producers to supplement income while rebuilding export markets need to be as generous as the budget process will allow. But to be fair with the farmers at the outset, they need to know how much income support they can expect from government during this adjustment period. If farmers understand that these program changes are necessary for their continued survival and they have the commitment from government on how much temporary additional support will be available, we think the producer segment will be much more willing to accept the needed policy changes.

Our Association appreciates the opportunity to present our views. I would be happy to respond to your questions.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE THE SUBCOMMITTEE ON WHEAT, SOYBEANS AND FEED GRAINS OF THE HOUSE COMMITTEE ON AGRICULTURE WITH REGARD TO FARM PROGRAMS FOR WHEAT, SOYBEANS AND FEED GRAINS UNDER THE 1985 FARM BILL

Presented by

Dean Kleckner, President, Iowa Farm Bureau Federation
and Member, AFBF Board of Directors

April 18, 1985

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. I serve as President of the Iowa Farm Bureau and as a member of the Board of Directors of the American Farm Bureau Federation. I appreciate the opportunity to appear before the Subcommittee on Wheat, Soybeans and Feed Grains of the House Agriculture Committee regarding the American Farm Bureau Federation's position on the grain and soybean provisions of the 1985 Farm Bill.

Farmers and ranchers devote extensive time and effort to develop Farm Bureau policies which are debated, amended and revised by voting delegates from each of our member states at our Annual Meeting. In January at our 66th Annual Meeting, our delegates adopted policies regarding farm programs in general and policies specific to programs for soybeans. Our general farm program policy states:

> "We will support a farm bill which will:
>
> (1) Maximize long-term opportunities for profit in agriculture;
> (2) Reduce existing incentives for overproduction at home and abroad;
> (3) Ensure price competitiveness for U.S. farm products in world markets;
> (4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand;
> (5) Assure consumers of adequate supplies of efficiently produced products they wish to consume;
> (6) Cause a supply reduction program to be implemented when carryover exceeds workable levels;
> (7) Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;
> (8) Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5-year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and
> (9) Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others."

Since the Annual Meeting in January, our organization has concentrated efforts on developing a legislative proposal for the 1985 Farm Bill based upon the philosophy and direction expressed in the general policy statement. Our Board of Directors has held two meetings to consider the specifics of this proposal, and the organization has held regional leadership meetings and commodity advisory committee meetings where this proposal was considered and debated. The result is that our proposal is supported by our membership in all regions of the country and for all commodities covered directly under farm program legislation as well as those not operating under direct authority of the bill. Because of this broad base of support, we sincerely hope that this Committee and all members of the Senate and House will closely evaluate our proposal when developing legislation to replace the Agriculture and Food Act of 1981 when it expires this year.

I would like to offer more detail to the Committee on the provisions of our proposal that most directly affect grain producers.

LOAN RATES: We support loan rates that are tied to a 3-5 year average of market prices for wheat, feed grains and soybeans. We would set the loan rate at 75 percent of a five year average of domestic prices excluding the high and low valued years. To avoid wide fluctuations in loan rates, however, we propose that the rate be adjusted by no more than 10 percent in any year including the first year of the program.

We believe that a loan rate set in this manner will signal to our international competition that we will not provide them with long-term price protection. Instead of inflexible loan rates which have allowed foreign governments to expand production based on support levels that reduced their risks in the market, we will signal to the world that we will compete with them in a wider range of prices. This will make their domestic programs more costly and reduce their incentive to continue heavily subsidized programs.

We would not propose that any additional program provisions be added to the soybean title of the 1985 Farm Bill. Our policy regarding soybeans states:

"We oppose acreage controls, marketing quotas and the establishment of a soybean reserve program."

Farm Bureau also supports maintaining the current $5.02 minimum soybean loan level. This minimum level is low enough to assure that our soybeans will be competitive in world markets, but it also gives American farmers a floor under the price support loans.

We believe that a soybean program that consists exclusively of a nonrecourse loan program is the best type of program for soybean producers. Such a program is responsive to market signals and is not costly while it provides producers an orderly marketing tool. We would oppose adoption of a target price, acreage reduction requirements or a reserve program for soybeans. The soybean industry has maintained efficiency and competitiveness without programs of this nature, and we believe that situation will continue.

TARGET PRICES: Farm Bureau supports continued use of deficiency payments as an income supplement to producers of the crops that currently have deficiency payments in their programs including wheat, and feed grains. We recommend freezing target prices for 1986 at the 1985 levels. In 1987 and thereafter, target prices would be set at 110 percent of the five year average used to determine the loan rate. Adjustments to target price levels, however, would be limited to 5 percent in any year. We also support a $50,000 payment limitation that would apply to deficiency payments only.

This target price system will allow producers time to adjust to a more market responsive farm program while maintaining income levels for program participants. Necessary adjustments could occur gradually while attempts to expand exports and address the issues of international market access and subsidy practices can be confronted.

EXPORT MARKET EXPANSION: We believe that the area in which substantial improvement can be realized in agricultural profitability lies in the area of exports. We therefore have placed great emphasis on the need for a strong trade title in the 1985 Farm Bill.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and the PL 480 or Food for Peace Program. These programs should be continued and improved. In view of the need for food, which has been made worse by the African famine situation, and the potential for economic development followed by better cash market opportunities, I believe that a much stronger PL 480 Program is currently justified.

Regarding CCC export credits, it is regrettable that the CCC Credit Revolving Fund, which was part of the 1981 Farm Bill, was never funded and activated. There are still valid reasons for incorporating the Revolving Fund in the 1985 Farm Bill with funding made available to make it an effective export tool.

An intermediate CCC Export Credit Program is needed to take care of export credit needs for terms of 3-7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

Farm Bureau also supports the development of an export "bonus" program. Under such a program, "bonus" tonnage of farm commodities and products would be made available from CCC owned commodities to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports.

The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not harm farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

ACREAGE REDUCTION PROGRAMS: We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. For wheat and feed grains, we recommend that the Secretary be required to call for an acreage reduction program when carryover is projected to exceed 4 percent of annual world utilization. The ARP programs should be large enough to assure a reduction in carryover supplies. We expect that through increased efforts to expand foreign markets under the trade title of our proposal and greater competitiveness in world markets through flexible price and income support programs, that acreage reduction programs will be used only to correct temporary imbalances; not as an annual program.

FARMER-HELD GRAIN RESERVE: We favor elimination of the farmer-held grain reserve. Grain farmers have learned that they cannot store their way to prosperity, and the reserve has exerted detrimental influences on livestock markets. The reserve has been used as a tool to temporarily prop up market prices in an attempt to reduce federal expenditures for deficiency payments. The buildup of supplies in the reserve has long-term negative consequences for both the grain and livestock industries. Without the reserve, we would never have accumulated the excessive stocks that gave need for a PIK program.

CONSERVATION: We are concerned that farm programs have provided incentives to plow up fragile lands. Our policy states, "We oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Any producer that brings such land under cultivation should be ineligible for any federal incentive payments for any crop in his entire farming operation."

We also support implementation of a conservation reserve program which offers producers contracts of seven to fifteen years under which erosion-prone cropland would be converted to less intensive uses such as pasture, permanent grass, legumes or non-crop bearing trees.

The policy that could best offer prosperity to U.S. agriculture would be a commitment to fiscal responsibility and reducing overall federal spending in order to get interest rates down, currency exchange rates in line and exports back into the world market. We therefore continue to support a freeze on government spending at 1985 levels.

We believe that our proposal will benefit the grain industry as it provides the opportunity for profit to all of agriculture. The features outlined above allow us to move toward market orientation, provide continued assistance in the form of target prices, and expand export markets. Only in this way can we return agriculture to a healthy and balanced condition.

Farm Bureau will work closely with the House Agriculture Committee in developing a sound and fiscally responsible farm bill. I would be happy to respond to any questions.

Statement of the

NATIONAL GRAIN TRADE COUNCIL
Presented by
Warren W. Lebeck

Mr. Chairman and Members of the Subcommittee:

My name is Warren Lebeck. I appear before you today representing the National Grain Trade Council. I am a member of the Council's Board of Directors and Executive Committee.

The Council is a national trade association whose policy-making members include grain exchanges, boards of trade, and national grain marketing organizations.

We appreciate the opportunity to appear before the Subcommittee today to present our views on legislative proposals to replace the Agriculture and Food Act of 1981. These legislative proposals before Congress represent a truly critical choice for the long-term well-being of the entire agricultural industry.

The National Grain Trade Council believes the 1985 farm bill presents an opportunity to stem the erosion of the United States' position in international markets, to regain our role as the pre-eminent supplier of agricultural commodities in world markets, and to place agriculture policy on a firm foundation for the long-term benefit of this important industry.

All aspects of agriculture have a vital stake in the policy choices Congress will make this year to guide future farm programs. Agricultural producers, obviously, are certain to be among those most affected by the 1985 farm bill. The livelihood of many others in the agriculture sector, such as those who supply equipment, seed, fertilizer, and other inputs, as well as those involved in the marketing and processing of farm products, will also be affected by the direction of future farm policy. As a whole, agriculture is the nation's largest industry, providing over 23 million jobs and 20 percent of the Gross National Product.

Exports have become the lifeblood of agriculture. Exports provide a market for the production of nearly 60 percent of the nation's wheat, about 25 percent of the corn, and nearly 50 percent of the soybeans About 100 million crop acres are devoted to exports. Without export markets, it would be necessary to idle one-third of the country's crop acres.

With our reliance on exports, the economic health of agriculture is closely related to the world economy. When the world economy slid into recession in 1980, demand weakened for agricultural exports. Simultaneously, competition for international markets increased.

While competition stiffened for a decreasing portion of export markets, the value of the U. S. dollar began to move up, increasing in strength by over 30 percent since 1980, giving our competitors a substantial price edge. In a shrinking market, our sales price increased due to the strong dollar.

As the dollar's value increased against foreign currencies, we were gradually priced out of world markets. Our domestic price support rates effectively set the minimum U. S. price above market clearing levels. We are now the residual supplier in world markets.

The U. S. share of world trade in agriculture has been declining over the past several years. Our share for grains peaked at 60.1 percent in 1979 and now stands at about 50 percent. U. S. agricultural exports, which recorded back-to-back gains during the 1970s, have fallen during the last four years.

In fiscal 1985, the value of U. S. agricultural exports is expected to drop to $35.5 billion, from $38 billion in fiscal 1984. Export value is down over 20 percent from 1981 when our exports were valued at $43.78 billion. Export volume in 1985 is expected to increase slightly to 145.5 million metric tons, compared to 143.6 million tons in 1984. Export volume is off by over 10 percent from 163.9 million tons shipped in 1980.

The reduction in exports has left the entire agricultural system over-extended.

Our loss of export market share comes as a particularly bitter pill following the export boom in the 1970s and a general optimism that such demand would continue indefinitely. In the 1970s, the United States set export sales records year after year in selling our products abroad. During this period, corn exports quadrupled, wheat and soybean exports nearly doubled, and the United States captured 75 percent of the world-wide growth in agricultural trade.

A strong export performance is critical to the financial health of agriculture. The loss of export markets is at the heart of agriculture's current problems. To regain our position in export markets, we must be price competitive. When a producer can receive a better return by placing his grain under loan and eventually forfeiting this collateral to the government than he can receive in the market, then he will produce for the government programs. When this happens, export orders are filled by other countries and stocks under government control in this country increase.

The Council believes that agriculture's current problems are ample evidence that a new direction is needed for farm policy. We believe that basing agricultural policy on market principles offers a far better solution to current problems than reliance on continued or increased government intervention. We recommend the following steps be taken to return agriculture to a market-oriented footing:

1. Loan rates be flexible and set at rates that allow the United States to be competitive in international markets;

2. Target prices be discontinued and replaced by an income support program aimed at farmers in the middle tier of sales;

3. Reserves be continued, but capped at a specified level;

4. Set-aside and acreage reduction programs be eliminated. We would favor a long-term conservation diversion program; and

5. Export promotion programs be expanded to stimulate U. S. agricultural exports.

Market-Oriented Loan Rates

We believe that placing loan rates on a market-oriented basis can best be achieved by basing loan rates on a moving five-year average of market prices, dropping the high and low years.

Such a market-based formula should remove the price umbrella the U. S. support levels now hold over world prices and will allow U. S. exports to be competitive in international markets. This approach will clearly signal to the world that we intend to retain our markets and aggressively seek out new markets.

Another possibility for the loan program would be to change it from a non-recourse to a recourse loan. This change would still provide producers with needed credit, enabling them to market their crops in an orderly fashion, however, the government would not be bound to assume the loan at artificially high levels.

Target Prices

We believe target prices should be discontinued in favor of a more targeted approach to protect middle-sized family farms against temporary problems of low farm income.

Target prices have not been successful in assisting farm income, they are expensive, they go mostly to larger farmers who need them least, and they encourage foreign production. A Congressional Budget Office study said that in the 1980s "...government intervention has reached the highest level in history--as measured by price-support outlays and acreage idled under government programs--but has not enhanced farm incomes significantly."

We do believe it is desirable to provide some type of income protection to farmers, targeted to those who need it most. A program to replace target prices should be designed to avoid interference with market forces. Such a program could be aimed to assist those farms with annual sales between $40,000 and $200,000. This group of farms seems to represent the middle tier and is that which most needs the assistance.

Smaller farms, those with annual sales of less than $40,000, appear to derive most of their income from jobs off the farm. It is difficult to justify income assistance to the largest farms, those with annual sales over $200,000. These larger farms generally earn net incomes substantially above the average income for all families in the United States.

Reserves

We support continuation of a grain reserve, but suggest the reserve be capped at specified levels.

There are good reasons for maintaining reserves; they demonstrate to the world we intend to be a reliable supplier and they provide stocks for responding to emergency situations. There are also arguments against a reserve, principally that reserve stocks overhang the market, further depressing prices.

We believe the negative effect of reserves can be minimized by capping the reserve at specific levels. The specific level could either be in terms of quantity, such as two billion bushels of wheat and feed grains, or as a percent of total use, such as 15 percent of annual wheat use and 10 percent of annual feed grain use.

We believe there is merit in the concept of eliminating trigger prices for release from the reserve in favor of simply paying a farmer to store reserve grain for a specified period of time.

Set Asides and Acreage Reduction Programs

We recommend that set asides and acreage reduction programs be eliminated. We would support a long-term conservation diversion program.

We believe there is ample evidence that supply management programs are self-defeating, ineffective, expensive, and encourage foreign production.

We would support a conservation diversion effort to remove fragile lands from intensive cultivation back to soil-conserving uses. The government, under such a program, could buy the cropping rights for an extended period on a bid basis.

Export Policies

We believe aggressive promotion programs could aid in building export markets for our products. We recommend that P. L. 480 be continued for the poorest countries, but with the program streamlined and redirected toward long-term market development. We support multi-year programming for P. L. 480.

Intermediate-term credit programs should focus on infra-structure development; private investment and market development programs should be encouraged; and U. S. markets should remain open to exports from middle-income developing countries to assist them in becoming commercial customers.

The Council does not believe that institutionalizing direct export subsidies would be good public policy. Direct export subsidies should be used only to achieve specific goals, not as a general policy. One factor limiting our export sales is the lack of financial liquidity in the world. Direct export subsidies would not ease this problem of liquidity.

We are deeply concerned by the problem of cargo preference requirements. As you know, a recent Court decision has ruled that USDA's blended credit program should be subject to the requirement that 50 percent of those shipments be on U. S.-flag vessels. The higher cost of U. S.-flag vessels completely negates the advantages of the blended credit program, and, as result, USDA has suspended this important credit program. The Court ruling has also cast a shadow over the GSM-102 program, leaving open the possibility of a suit seeking to impose cargo preference requirements on the GSM-102 program.

We support, as an immediate step, legislation to exempt agricultural exports, except P. L. 480 shipments, from cargo preference.

We further support efforts to completely remove the applicability of cargo preference to agricultural exports. The Council believes that funds allocated for humanitarian purposes, such as those under P. L. 480, should not be used to subsidize the maritime industry.

The Council opposes the Administration's proposal to increase the origination fee on GSM-102 loans to five percent. Such a fee would seriously detract from the loan program and dramatically increase the loan fee which is now about one-third of one percent. We would support a provision in the farm bill placing a ceiling on such fees at the one-third of one percent level.

We believe the United States should aggressively seek the elimination of unfair trade practices by other countries. We are asking our farmers to compete in the international market and it is not fair to expect them to compete against the treasuries of foreign nations.

We favor programs that will help potential customers earn the foreign exchange they need to buy U. S. agricultural products. This means determined efforts against domestic protectionist pressures and, thus, keeping U. S. markets open to the exports of other countries.

In conclusion, a number of factors have contributed to agriculture's current problems. We believe future farm legislation should provide sufficient flexibility for the United States to respond to changing conditions in a dynamic international market place.

We favor a policy that will return long-term prosperity to agriculture, for, as a rule, when agriculture prospers, we all prosper. Conversely, when agriculture suffers, we all suffer.

We believe market-oriented policies offer the best solutions to current problems. We are aware that many of agriculture's problems lie beyond the scope of the farm bill and cannot be resolved in this forum.

A market-oriented farm policy will provide the best framework for restoring the long-term health of the nation's largest industry.

STATEMENT OF
THE AMERICAN BAKERS ASSOCIATION
THE INDEPENDENT BAKERS ASSOCIATION
AND
THE RETAIL BAKERS OF AMERICA

STATEMENT OF ABA, IBA AND RBA ON 1985 FARM BILL

Mr. Chairman, and Members of the Committee, we are pleased to have this opportunity to testify on the 1985 Farm Bill. As major users of two of the most important agricultural commodities that are included in this legislation, wheat and sugar, we have a vital stake in farm policy.

At the outset, we want to state that we have great empathy for the plight of the American farmer, and we realize that we, as well as all Americans, have a need to maintain a productive and efficient agricultural economy for the nation. We want the nation's farmers to have a fair return on their investment, managerial talent, and their labor. However, we believe this return should come from the market, not from citizens' tax dollars.

We do not envy the difficult role in which you find yourself -- the responsibility to fashion an acceptable farm bill, at a time when many segments ~~of~~ the farm economy are depressed, and there is a need to greatly reduce federal expenditures for farm programs. We urge Congress to resolve the farm credit problem concurrent with enactment of new farm policies. We hope that the recommendations that we make here today will help you in these difficult tasks.

Four years ago, many of us here today sat at these same tables discussing proposals for commodity programs in the 1981 Farm Bill. With the benefit of hindsight, we can see that some of the assumptions on which those programs were based were faulty and, accordingly, that bill has not accomplished what Congress intended.

A major premise of the 1981 legislation was that increasing world demand for our crops had finally solved the problem of excess supply and that, consequently, the major issue of the 1980's would be how to increase production in order to avoid shortages. It was believed that voluntary acreage reduction programs would be sufficient to deal with temporary surpluses.

Another assumption was that Congress could mandate a rigid, long-term (four year) price support structure for agricultural commodities. How wrong we were! Events have demonstrated that weather, international currency fluctuations, technology and changes in the business cycle are more powerful influences on agricultural markets than the laws written by Congress. Thus, one lesson to be drawn from this experience is that Congress should not attempt to specify price support levels over a long period, but rather should adopt a flexible approach with ample room for adjustment to domestic and international market conditions from year to year. This will assure that price support policy is closely geared to changing market realities.

So far the 1980's have been characterized by substantial oversupply of wheat and other major crops. Experience has shown that voluntary programs are ineffective to reduce production and are very costly. Both participating and nonparticipating farmers simply increase their acreage bases as much as possible, and strive for maximum yields to offset the reduced acreage.

We have also learned that when we implement such acreage reduction programs, farmers in the rest of the world expand production, thereby negating our adjustments, increasing the cost of our program, and reducing our world market share. Therefore, Congress must face the fact that voluntary acreage reduction programs are inconsistent with limiting the cost of farm programs and are not the answer to the oversupply problem.

Policy Goals 1985-1989

We believe that Congress should aim for three basic goals in the 1985 Farm Bill:

1) Commodity programs must become truly market oriented. Congress and three successive Administrations have claimed that previous laws were market oriented but, in fact, government interference in the agriculture market has increased in recent years. Now, government must truly reduce its role and allow market signals to determine production levels for major crops.
2) Programs should be designed and support levels established in the 1985 Act consistent with the objective of spending no more than $6 billion per year, as an average over time, on all commodity price and income support operations.
3) While Congress is reducing the Federal role in agriculture, we must take care to avoid extreme swings in commodity prices. The roller coaster prices of the early 1970's had a severe impact on bakers, especially on our

small- to mid-sized bakers. Government has a responsibility to cushion low prices with an economic safety net, to provide some stability for producers. At the same time, government should provide some protection for consumers against excessively high prices, which are an economic shock to business budgets and to family pocketbooks.

Farm Sector Economic Realities

As Congress begins to consider the 1985 bill, it is important to keep in mind certain key facts about the structure of the farm sector and the growth of farm program costs. Among them are the following:

* Four percent of our farms (107,000) produce 48 percent of total farm output and had average family incomes of $192,000 per farm in 1983.
* Some 24 percent of our farmers in the $40,000 to $200,000 gross sales category, produced 39 percent of all farm output in 1983, earned most of their family incomes from the farm, and have average family incomes of about $27,000, mostly from farming.
* About 72 percent of our farmers produced only 13 percent of all farm output in 1983 and received 80 percent of their spendable income from off-farm sources. These farmers had average family incomes from all sources around $19,435 in 1983.
* The largest 10 percent of US farms accounted for over 50 percent of direct government payments in recent years, while half of all our farms got only 10 percent

of all federal farm payments.

* Making these payments, mostly to large farmers, and conducting price support operations cost the federal government $29 billion in a single fiscal year (1983) under the 1981 Act, in both direct expenditures and payment in-kind.
* Exports are key outlets for our production, taking 60 percent of wheat production, 40 percent of soybeans and 50 percent of cotton in a typical year. This makes our agricultural sector very sensitive to outside influences such as the value of the dollar, world credit conditions, and trade restraints.

These facts lead to three important conclusions:

1) That most of those who produce the bulk of agricultural commodities are relatively prosperous, yet they receive over half of all Federal payments as income supplements. Some of these large farmers are in financial trouble, however, and should be helped by better credit policies.
2) That the majority of producers, with lower incomes, receive very little in government payments. Federal farm programs are increasing the income disparity between large and small farmers, not reducing it; and
3) That it is vital to both large and small farmers that their crops be competitive in world markets because exports provide a large part of the income for both groups. This means not only offering our crops at realistic prices, but also providing open access to our market for the produce of other nations.

Program Recommendations

Loan rates - The loan program has been part of the law for over 50 years. At various times, loan rates have served as a price floor, marketing tool, income support mechanism and price stabilizer.

But in recent years, Congress has raised the rate above market clearing levels, and substantially above variable costs, so that producers are guaranteed a profit. When there is no risk, farmers are encouraged to expand production. Market signals can be ignored.

The USDA estimates that loan rates now cover average variable costs for over 98 percent of all wheat and corn produced. This means that a large portion of all producers are assured a return well above variable costs. Excessively high loan rates together with escalation of the value of the dollar are the main reasons for current surpluses of some crops and our weak position in world markets.

Accordingly, we recommend that loan rates be brought into closer alignment with market conditions by adapting the soybean loan formula to wheat. Under this approach, the wheat loan rate beginning in 1986 would be based on 75 percent of the average cash price received by farmers for all wheat in the past five years, excluding the high and low years. A minimum rate could be established from year to year, as it is for soybeans, but that minimum should always be lower than anticipated market prices. Under the proposed formula, the loan rate would gradually move up or down from year to year as prices rose or declined. This would provide considerable stability for market prices, while providing the price flexibility so badly needed to compete abroad.

Further, we recommend that the USDA explore the possibility of revising the schedule of premiums and discounts for wheat quality. The USDA has not reviewed this schedule for many years. During this time, wheat quality has tended to deteriorate, with growing emphasis on yields. A new schedule could provide greater incentives for higher quality wheat, thereby benefiting both domestic and international customers.

Target prices - The current target price program was introduced into the law in 1973. The theory behind it was that by separating the price support and income supplement functions of commodity programs, loan rates could be reduced to increase exports, and the need for supply control programs would be decreased.

But it has not worked out that way. Target price payments have had the effect of inflating land prices and production costs. They have encouraged farmers to expand production, even under surplus conditions, and have been very expensive to our national budget. Target price payments for wheat cost the taxpayers over $1.5 billion for the 1984 crop. For feed grains, 1984 payments will approach $1.75 billion.

In this time of severe budget stringency, target prices must be substantially reduced, starting with 1986 crops, and should be phased out over the next four years. Moreover, payments should be directed away from large, prosperous farmers who do not need them, and from small producers who obtain most of their income from non-farm work, to small and mid-sized farmers who depend on farm income for a living.

Acreage Reduction Programs - Voluntary acreage reduction programs have been a part of the law for over 50 years. Their asserted purpose is to adjust supply and demand to avoid surplus stocks and hence, large government costs.

But the history of the past 25 years has shown that voluntary acreage reduction programs have been largely ineffective. They tend to shelter less productive farmers, while encouraging others who do not participate to produce to their full capacity. Moreover, USDA research shows that when producers join a voluntary acreage reduction program, they increase cultivation on their remaining land, thereby increasing yields. The USDA has found that for every 10 percent of the acreage base idled, acreage yield on the remaining acres increases three percent for corn and two percent for wheat.

Four years ago, we recommended that Congress terminate authority for voluntary acreage reduction programs. Our belief has been strengthened by the lack of results from this program in recent years. Once again, we urge that Congress end this program.

It is obvious that in the short run there is an excess of resources devoted to crop production in the United States. We must, however, address the problem of overproduction in a more rational manner in an era of reduced world demand for US grain and relatively static domestic demand for the basic agricultural commodities.

At the same time, we realize that there is a need to provide some transitional help for the farmer who would be affected by the lower loan rates and reduced target prices that we are suggesting. Therefore, we propose a long-term land retirement program similar to the Soil Bank program of the 1950's. We suggest a program that would involve a commitment on the part of the farmer to retire land for a five year period or more, with escape clauses so that the land could be taken out of retirement if there was a food shortage. The program would be aimed at those areas most in need of soil conservation.

Such a program should be operated on a bid basis to provide the most conservation for the least dollars, and maximum effect on farm output during the transition to a full production farm economy. This land, which would have to be planted to soil-conserving uses to qualify, would thus have a chance to be restored and rebuilt, while remaining available for future needs for world food production.

Commodity Reserves - The farmer owned reserve was added in the 1977 law. Until recent years, it has functioned in the manner intended to reduce supply and price instablity, and to improve our national reputation as a reliable supplier.

In recent years, however, the reserve has been used to support prices by raising the entry loan rate, and by allowing the build-up of excessive stocks. The corn reserve increased from 185 million bushels in 1980-81 to 2.8 billion bushels in 1982-83. Similarly, the wheat reserve rose from 360 million bushels in 1980-81, to 1.1 billion bushels in 1982-83.

We support the farmer owned reserve program. We believe it has a necessary and proper place among our commodity programs. We recommend that it be returned to its original purposes.

To achieve this, CCC and farmer owned reserve stocks should be capped at 700 million bushels of wheat, and the reserve entry price limited by law to no more than five percent above the current loan rate. At the same time, the release price should be kept reasonable, no more than 150 percent of the entry price. Correspondingly, when the reserve falls below 300 million bushels, the Secretary should take measures to replenish reserve stocks.

Permanent Repeal of the Wheat Certificate Program - Section 303 of the current law suspends application of the Wheat Certificate Program until 1986. This relic of another era should finally be terminated. The bread tax should be permanently repealed! Until that can be done, Congress should act quickly on an amendment to present law, or by joint resolution, to suspend all USDA activity leading to a referendum on an unworkable program for the 1986 crop of wheat, and to postpone the referendum now required by law for at least six months.

Mr. Chairman, we appreciate the opportunity to present our views to this distinguished panel. We will be happy to answer any questions you may have.

STATEMENT OF PATSY GOODMAN, INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE AGENCIES, TO THE HOUSE WHEAT, SOYBEANS AND FEED GRAINS SUBCOMMITTEE ON THE 1985 FARM BILL

APRIL 18, 1985

Mr. Chairman, I am Patsy Goodman of the International Association of Fish and Wildlife Agencies. The Association consists of all the 50 state fish and wildlife agencies, Canada, Mexico and five federal agencies.

Mr. Chairman, farm management is a major factor in habitat availability for wildlife. Loss of soils through erosion means loss of the very substrate of terrestial wildlife habitat and usually means loss of water quality for aquatic species as well. Good farm and soil management often makes the difference between the total loss or decline of wildlife and the continuing existence of selfsustaining wildlife populations in rural America.

A new direction in the 1985 farm bill, particularly with regard to commodities programs is not just of interest to the farmer, it is of concern to wildlife managers and the general public. A broad based policy in the farm bill that supports good soil and water management will insure the continued ability of our farmers to produce agricultural products, will insure a healthy commodities market value and will insure good wildlife habitat. It is time that an integrated approach be applied to the farm bill statement of purpose. Our farm economy, soil, water, and wildlife resources are at stake.

During the past year the Association and many other concerned natural resource organizations have been studying the farm issues in anticipation of the development of an omnibus farm bill. As a result, we recently provided testimony supporting strong sodbuster and conservation reserve measures to the House Agricultural Subcommittee on Conservation, Credit and Rural Development and to the Senate Agriculture Committee. But we also want to appeal to you to incorporate those conservation measures into the commodities titles. In the 1980 Farm Bill, resource conservation was a separate title, none of which was effectively implemented. Each commodity title should include:

1. Measures to prevent the tillage of highly erodible lands that have never or not recently been used to produce commodities that are already in surplus. Those who fail to comply should be ineligible for commodity support payments and any other federal farm program benefits.

2. Provide for multi-year set-aside contracts, 5 to 10 years or more, on approximately 20 percent of the current base acreage for commodity production. This set-aside is consistent with historic acreage set-asides and should specifically be for lands that are erosion-prone. There must also be provisions that cover crops be planted on these lands to prevent erosion and to provide wildlife habitat where appropriate.

Previous set-aside programs with only year-to-year contracts were too short and unpredictable to allow for the establishment of cover crops or to be of benefit to wildlife; often landowners had insufficient lead time and cover crops were not planted.

3. Promote a land resource ethic within the farm bill and address the many resources impacted on and off site by farm management practices. This can be accomplished by including water quality, wildlife, fisheries and recreation professionals in local farmland set-aside decision-making processes.

4. Encourage landowners to manage set-asides for long-term economic benefits, such as for tree production or for public recreation, charging fees for access.

In summary, the Association is convinced that the above programs are an advantage to the farmer, to wildlife and to the generations to come who will also depend on these basic natural resources.

TESTIMONY OF DANIEL WEISS FOR THE SIERRA CLUB

Mr. Chairman, and members of the Subcommittee, I am Daniel Weiss. I am a Washington Representative for the Sierra Club, which is one of the nation's oldest conservation organizations, with 355,000 members organized in chapters and groups throughout all fifty states.

In the past several months, the farm debt crisis has grabbed the nation's headlines and Congress' attention. But there is another, silent agricultural crisis that also threatens the long-term health of our economy and environment. That crisis is soil erosion. The erosion crisis has been worsened by some of the same government polices which have caused the dreadful plunge in commodity prices and the farm debt crisis. The Sierra Club believes that the 1985 Farm Bill is the best opportunity to address the erosion crisis, and at the same time reduce the overproduction which is bankrupting our farmers.

In the 1970's, government policy and farm programs encouraged farmers to cultivate as much land as possible. Since 1971, cultivated crop acreage has increased by about 70 million acres, or 15 percent -- an area the size of Nevada. Marginal lands--including highly erodible grass or pasture lands, and wetlands--were converted into crop lands. This sodbusting and swampbusting devastated our environment because of increases in erosion, agricultural runoff, and wetlands destruction. The farm economy has also been devastated by the drop in prices caused in part by the production from these lands.

Nationwide, nearly one-fourth of our cultivated lands lose at least twice the tolerable amount of soil every year. Generally, the tolerable loss rate is five tons per acre per year for most lands, which is about the thickness of a dime. Washington state loses about 3 1/2 dimes depth of soil annually on its highly erodible land. In the Palouse Region of Washington, 5 1/2 bushels of soil is lost for every bushel of wheat grown. The first photo attached to my testimony documents severe erosion in the Palouse Region from highly erodible land planted with wheat. Iowa loses two bushels of soil for every bushel of corn grown.

This map indicates the amount of erosion on cultivated land in each state where erosion is at least twice the tolerable rate. The states with the worst erosion are in purple and orange.

Soil erosion costs farmers money in two ways. First, it reduces crop production by stripping croplands of the nutrient-rich topsoil. Dr. James Kittrick, soils professor at Washington State University, testifying last month before the House Committee on Agriculture, said, "Wheat production would be at least 25 percent higher in the Palouse Region were it not for erosion."

In addition, the exposed subsoils require more water, fertilizer, and tillage to achieve a given crop yield. Erosion costs farmers at least $625 million annually in reduced yields, extra fertilizer, and soil conservation measures.

Soil erosion also poses an immediate threat to the environment. Runoff from farmland is one of the prime sources of untreated water pollution. Enough soil washes off our farmlands and into streams and lakes each year to cover an area the size of Indiana with an inch of soil. Sediment, fertilizers, herbicides, and pesticides choke our rivers and poison our fish. This erosion causes an estimated $3 to 13 billion a year in damages to water quality, recreation, industry, and navigation.

Our wetlands--vital for waterfowl habitat, flood control, and aquatic life--are also threatened by agriculture. Nearly half of them have been filled or drained. The Office of Technology Assessment estimates that from the mid 1950's to the mid 1970's, four out of every five acres of wetlands lost were destroyed for agriculture production. Wetlands destruction continues at a rate of 300,000 to 450,000 acres annually. Unfortunately, farm policies that encourage increases in crop production also encourage the destruction of critical duck habitat, such as the bottomland hardwoods of the Mississippi River Valley, to produce soybeans and other crops which are in surplus. These surpluses, in turn, depress prices further.

Last year, the House Committee on Agriculture authored "The Soil Conservation Act of 1984," HR 3457. This bill would have been a small step towards solving the erosion crisis. The Sierra Club's recent report Resource Conservation: New Opportunities in the 1985 Farm Bill, demonstrates conclusively that we must go beyond HR 3457 to fight erosion on highly erodible, marginal farmlands, and end federal support for wetlands destruction.

The Sierra Club urges the House Committee on Agriculuture to include the following provisions in the 1985 Farm Bill. These programs would reduce soil erosion by at least 20 percent, drastically improve water quality, and protect wetlands. In addition, they would reduce production and boost prices.

End federal support for sodbusting. Farmers who cultivate highly erodible lands which have not been farmed since 1980 should become ineligible for participation in all federal farm programs. This must include commodity programs, loans, and insurance for all crops and lands in perpetuity, unless they implement a conservation plan which reduces erosion to a tolerable rate.

The grace period in HR 3457 — which exempts any land farmed since 1973 -- is simply too long. Many of the worst plow outs of prairie and other highly erodible lands occured in the late 1970's--perhaps as much as 800,000 acres a year. These lands -- such as the Colorado rangeland plowed in 1977 shown in the second photo attached to my statement, would be excluded from sodbuster penalties. The grace period should only extend to 1980, so that farmers who plow such lands again are penalized under the sodbuster program. At a time when massive crop surpluses are depressing prices, it is senseless to let many of the folks who plowed out the land in the 1970's off the hook by providing them with federal support in the 1980's.

End federal support for "swampbusting." Farmers that drain, fill, or otherwise convert wetlands into croplands should become ineligible for participation in all federal farm programs for all crops and lands for 25 years. Farmers can convert wetlands to croplands if they want to, but this destruction -- which would increase production and depress prices -- shouldn't be supported by taxpayers.

Convert highly erodible crop lands to sustainable uses. A thirty-million acre conservation reserve should be created to encourage farmers to convert highly erodible croplands to less erosive uses like pasture or timber. Farmers would be paid an annual fee during the ten year life of the reserve contract. Highly erodible land in the reserve program must be included in the sodbuster program after the ten year contract expires. The reserve program would also boost prices by retiring cropland; the larger the reserve, the larger the reduction in commodity surpluses.

A 30-million acre conservation reserve would retire about two-thirds of our most erodible cropland, and would be more cost effective than current soil conservation programs. For instance, in 1983, federal and Nebraska agencies spent a total pf about $2.50 for every ton of soil saved in Nebraska. A 30-million acre conservation reserve would only cost an estimated $1 per ton of soil saved.

Integrate conservation into commodity programs. Farmers that participate in federal farm programs should be required to reduce erosion from their lands to a tolerable level. In addition, farmers should not be penalized by having their crop bases reduced because of voluntary set asides or conservation rotations.

Taken together, these provisions would reduce erosion by at least 20 percent, enhance water quality, and protect wetlands. They would also reduce the net cost of current farm programs -- perhaps by as much a $1 billion annually.

The conservation community — including the Sierra Club, American Farmland Trust, National Audubon Society, National Wildlife Federation--have been joined in our efforts to reduce agriculture related pollution by a distinguished group of your colleagues. Rep. Howard Wolpe of Michigan testified before the Subcommittee on Conservation, Credit, and Rural Development to urge it to adopt the "strongest possible conservation provisions" in the 1985. Joining Rep. Wolpe in this effort was 25 members of Congress who are environmental leaders in the House of Representatives, including Reps. Morris Udall of Arizona and John Sieberling of Ohio. A copy of Rep. Wolpe's statement is attached to my testimony for inclusion into the record.

This Subcommittee has the difficult task of altering existing commodity programs to help financially strapped farmers increase their income without exacerbating the already swollen federal budget deficit. The sodbuster and swampbuster provisions would ease future surpluses — and prevent further decline in prices -- by creating effective economic disincentives against converting highly erodible lands or wetlands into cropland.

Commodity surpluses would be significantly reduced by a 30-million acre conservation reserve program, which would give a second chance to farmers who converted highly erodible lands to croplands, by helping them convert these lands back to sustainable uses. Ron Ellermeier, a Nebraska farmer, told the Senate Committee on Agriculture last Monday, that a reserve "would help all farmers by removing land from production, thereby reducing crop surpluses and increasing prices for everybody."

In conclusion, the Sierra Club's goal is to make changes in the 1985 Farm Bill which will protect our precious soil and water resources and help our farmers, too.

Thank you very much for this opportunity to testify. I will be happy to answer any questions.

(Attachments follow:)

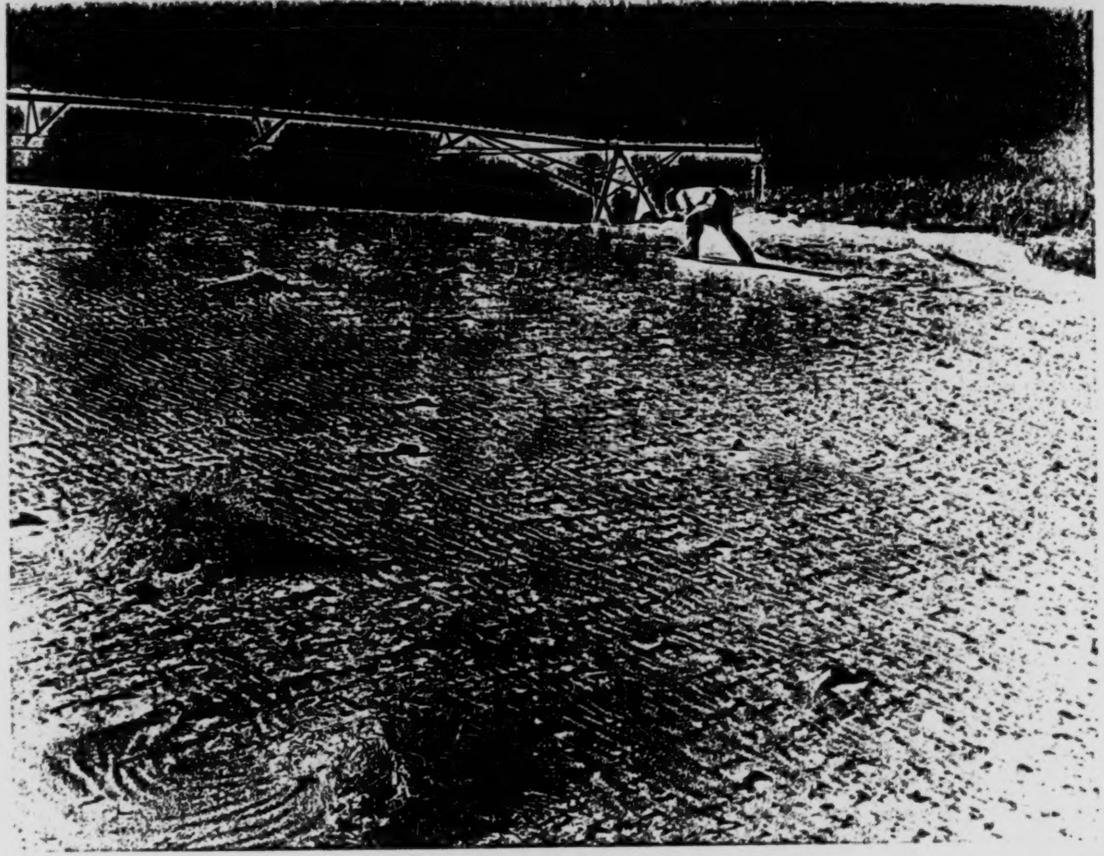
ESTIMATED WETLANDS LOSS BY STATE

California	87 percent of wetlands destroyed
Florida	40 percent of wetlands in southern Florida destroyed by 1973
Illinois	99 percent of wetlands destroyed
Iowa	95 percent of wetlands destroyed
Michigan	70 percent of wetlands destroyed
Minnesota	80 percent of prairie wetlands destroyed
Missouri	90 percent of wetlands destroyed
Mississippi	80 percent of bottomland hardwood wetlands in Mississippi River Valley destroyed
North Carolina	33 percent of Pocosin wetlands destroyed 36 percent of Pocosin wetlands drained, cleared, cut or planned for development
Oklahoma	70 percent of wetlands destroyed

Source: National Wildlife Federation

Palouse, Eastern Washington.
Severe erosion on land planted in wheat.

-- USDA-Soil Conservation Service



Severe soil erosion from rangeland put under circular irrigation to grow corn in 1977. This highly erodible land would be exempt from any sodbuster penalties under S.501, S.666, S.2666.

-- USDA-Soil Conservation Service

STATEMENT OF CONGRESSMAN HOWARD WOLPE
HOUSE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT
APRIL 4, 1985

Good morning. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to testify about the soil erosion and water pollution crises confronting our nation -- and how we can begin to address these problems in the 1985 Farm Bill.

This morning, I am pleased to appear on behalf of a bipartisan group of 21 of our colleagues. I will include their names for the record.

Mr. Chairman, these members have joined in an effort to build an informal House and Senate "agriculture conservation coalition" to address these issue in the 1985 Farm Bill. It is our objective to mobilize solid support in the House and Senate for strong legislative action to attack the soil and water problems confronting our nation. We seek the inclusion of the strongest possible conservation provisions in your bill.

The off-farm impacts of soil erosion and wetlands conversion significantly degrade the quality of life of the American people. Soil erosion, for example, is perhaps the single largest source of uncontrolled water pollution today. Enough sediment washes from our farmlands every year to cover a state the size of Indiana an inch deep with soil. It causes, each year, an estimated $2 billion or more in damage to water quality and navigation.

Wetlands -- critical for waterfowl, flood control, and aquatic life -- are also threatened by inappropriate cultivation. The Office of Technology Assessment estimates that 80 percent of the 300,000 acres of wetlands lost annually are converted to croplands.

Unfortunately, current farm programs encourage the production of crops on marginal, erodible farmland and the conversion of wetlands into croplands.

EXISITING CONSERVATION PROGRAMS HAVE BEEN UNABLE TO SIGNIFICANTLY SLOW SOIL EROSION OR WETLAND DESTRUCTION. NEW, COMPREHENSIVE APPROACHES ARE NEEDED TO ADDRESS THESE PROBLEMS.

WE MUST BUILD SUPPORT FOR THE KIND OF TOUGH AND INNOVATIVE CONSERVATION PROVISIONS THIS SUBCOMMITTEE -- LED BY YOU, MR. CHAIRMAN --INCLUDED IN THE "SOIL CONSERVATION ACT OF 1984" DURING THE 98TH CONGRESS. BUILDING ON THIS SOLID FOUNDATION, WE URGE YOU TO :

- BUILD ON THE SODBUSTER PROVISION DEVELOPED LAST YEAR BY NARROWING THE GRANDFATHER PROVISION TO EXCLUDE THE HIGHLY ERODIBLE LANDS FARMED SINCE 1980;
- END FEDERAL SUPPORT FOR SWAMPBUSTING BY DENYING ELIGIBILITY FOR ALL FARM PROGRAMS -- INCLUDING PRICE SUPPORTS, LOANS, AND INSURANCE -- TO THOSE WHO DRAIN, FILL, OR OTHERWISE CONVERT WETLANDS INTO CROPLANDS;
- AND BUILD ON THE CONSERVATION RESERVE APPROVED LAST YEAR BY INCREASING ITS SIZE TO 30 MILLION ACRES AND TARGETTING THOSE HIGHLY ERODIBLE ACRES WHICH ARE MAJOR CONTRIBUTORS TO WATER DEGRADATION.

TAKEN TOGETHER, THESE PROVISIONS WILL REDUCE EROSION AND WATER POLLUTION, PROTECT WETLANDS, AND SAVE MONEY. A 30 MILLION ACRE CONSERVATION RESERVE PROGRAM ALONE WOULD REDUCE EROSION BY ONE-FIFTH, OR 600 MILLION TONS ANNUALLY THE SODBUSTER AND SWAMPBUSTER PROGRAMS WOULD GET THE FEDERAL GOVERNMENT OUT OF THE BUSINESS OF SUPPORTING THE DESTRUCTION OF OUR FRAGILE LANDS AND WETLANDS.

THE SODBUSTER, SWAMPBUSTER, AND CONSERVATION RESERVE PROGRAMS WOULD BENEFIT FARMERS, TAXPAYERS, AND OUR OVERALL NATIONAL CONSERVATION POLICY. FARMERS WOULD BENEFIT BECAUSE THEY WOULD BE PAID TO SET ASIDE HIGHLY ERODIBLE CROPLANDS, RATHER THAN ALLOW THE INAPPROPRIATE AND DESTRUCTIVE CULTIVATION OF THESE LANDS TO CONTRIBUTE TO PRICE-DEPRESSING SURPLUSES. TAXPAYERS WOULD

BENEFIT BECAUSE THE RESERVE PROGRAM WOULD REDUCE CROP SURPLUSES, WHICH IN TURN WOULD HELP BOOST COMMODITY PRICES AND REDUCE THE COSTS OF FEDERAL FARM PROGRAMS. FINALLY, OUR NATIONAL CONSERVATION POLICY WOULD BENEFIT BECAUSE LANDS PROTECTED OR RETIRED FROM PRODUCTION WOULD HELP RESTORE THE PRODUCTIVITY OF THE SOIL, AND HELP OUR URBAN AND RURAL CITIZENS FROM FURTHER WATER CONTAMINATION AS A RESULT OF EROSION AND RUN-OFF.

MR. CHAIRMAN, WE INTEND TO WORK CLOSELY WITH A COALITION OF AGRICULTURAL AND ENVIRONMENTAL LEADERS THE SENATE, AND WITH NATIONAL FARM AND CONSERVATION ORGANIZATIONS, TO BUILD THE KIND OF SUPPORT FOR THESE PROVISIONS WHICH WILL RESULT IN SENATE APPROVAL OF THESE BADLY NEEDED CONSERVATION MEASURES, AND AVOID THE STALEMATE WHICH KILLED YOUR INNOVATIVE BILL LAST YEAR. WE BELIEVE THERE IS AN EMERGING COALITION IN THE CONGRESS THAT WILL SUSTAIN VERY TOUGH CONSERVATION PROVISIONS.

THE BUDGET DEFICIT AND THE FARM CRISIS PROVIDE A UNIQUE OPPORTUNITY TO INCLUDE SOIL CONSERVATION PROVISIONS IN THE 1985 FARM BILL. THE CONSERVATION RESERVE PROGRAM -- THOUGH NO PANACEA -- WILL GO A LONG WAY TOWARD PROVIDING AN ENVIRONMENTALLY SOUND AND COST-EFFICIENT FARM PROGRAM.

I, ALONG WITH THE AFOREMENTIONED MEMBERS OF CONGRESS, LOOK FORWARD TO WORKING WITH YOU, MR. CHAIRMAN, AND WITH THE SUBCOMMITTEE TO DEVELOP AND ENACT CRITICALLY NEEDED SOIL AND WATER CONSERVATION LEGISLATION AS A PART OF THE 1985 FARM BILL.

THANK YOU FOR THE OPPORTUNITY TO TESTIFY TODAY.

MEMBERS OF CONGRESS IN SUPPORT OF TESTIMONY

DELIVERED BY REPRESENTATIVE HOWARD WOLPE

1.	Morris Udall	(AZ)
2.	John Seiberling	(OH)
3.	Dale Kildee	(MI)
4.	William Richardson	(NM)
5.	James Moody	(WI)
6.	John Bryant	(TX)
7.	Peter Kostmayer	(PA)
8.	Thomas Foglietta	(PA)
9.	Frank Horton	(NY)
10.	Thomas Carper	(DE)
11.	Bob Edgar	(PA)
12.	Barbara Mikulski	(MD)
13.	James Florio	(NJ)
14.	James Leach	(IA)
15.	Rick Boucher	(VA)
16.	Thomas Downey	(NY)
17.	Mickey Leland	(TX)
18.	James Slattery	(KS)
19.	Sander Levin	(MI)
20.	James Oberstar	(MN)
21.	Thomas Tauke	(IA)
22.	Mike Synar	(OK)
23.	Joseph McDade	(PA)
24.	Barbara Boxer	(CA)
25.	Chet Atkins	(MA)

STATEMENT OF JOHN PENDER, BREAD FOR THE WORLD

Thank you Mr. Chairman and members of the committee. I am John Pender, agricultural policy analyst for Bread for the World. BFW is a nationwide movement of over 47,000 Christian citizens working for public policies which will help end hunger. We appreciate this opportunity to express our views on grain policies.

The policies which affect the supply and price of grain are very important to the situation of hungry people throughout the world. Grain reserve programs are particularly important. Without adequate reserves to draw upon, food shortages are inevitable when grain production fall short of demand. When this happens, those who suffer the most are those least able to pay higher prices. In the early 1970s, many thousands of people went hungry or died after changes in the policies of some governments and a world shortfall in grain production led to grain shortages and a tripling in grain prices.

The price boom which occurred, while helping farmers in the short run, hurt them in the long run by contributing to the overinflated expectations of the 1970s which were a major source of the current farm crisis.

Grain policies can also have a substantial impact upon food aid. Large grain surpluses in the 1950s and 1960s contributed to a large flow of food aid, sometimes to the detriment of agricultural development in the recipient countries. In the early 1970s, new policies and supply shortages led to a two thirds reduction in food aid, when many recipient nations were facing severe food shortages. Today, as grain surpluses have returned, food aid is again seen by some as a way to dispose of the surplus.

Bread for the World believes food aid should be carefully provided on the basis of need and developmental impact rather than the availability of surplus. Food aid is not the appropriate vehicle to absorb surpluses and shortages in agricultural production. We believe that well managed grain reserve and grain supply programs are critical, both to prevent surplus accumulation and to protect against supply shortages. Such programs would not only help to preserve the integrity of food aid and promote food security, but also to promote stability in the farm economy and conservation of agricultural resources.

To serve these objectives, Bread for the World seeks:

- o reauthorization and replenishment of the Food Security Wheat Reserve;
- o reauthorization of the Farmer-Owned Grain Reserve;
- o reforms in the Farmer-Owned Reserve which will provide for adequate but not excessive carryover stocks; and
- o better coordination of supply management with reserve policies in a manner which promotes food security, stability in the farm economy, and conservation of agricultural resources.

The Food Security Wheat Reserve

The Food Security Wheat Reserve is needed to ensure that the United States can meet food aid needs when supplies are short. Part of this 4 million ton reserve has been made available for famine relief in Africa. This reserve needs to be replenished so that it will continue to be available to safeguard the food aid program and for emergency needs.

The Farmer-Owned Reserve (FOR)

The Farmer-Owned Reserve is needed to ensure reliable grain supplies and to promote stability in the rural economy. In 1983, U.S. corn production fell by 50%, largely as a result of a severe drought, and only by drawing heavily upon FOR stocks was a major shortage avoided. Corn released from the FOR accounted for more than one-third of the total U.S. corn supply in late 1983 and early 1984. Without this reserve, livestock production would have been much more severely disrupted, food price inflation would have increased, and corn exports would have suffered.

While Bread for the World seeks to have the FOR reauthorized, we also see the need for reform in the program. In recent years, the FOR has been misused as an alternative to acreage control programs to raise support prices. Excessive reserve stocks were accumulated in 1981 and 1982 and then rapidly depleted by the largest acreage diversion program in history in 1983. This approach jeopardized the security of food supplies, created havoc in the rural economy, and was enormously expensive.

BFW is proposing that the FOR be used to ensure an adequate but not excessive reserve stock in the United States. If total U.S. carryover stocks of grain fall below a minimum level necessary for food security, FOR incentives should be used to promote rebuilding of reserves to an adequate level. On the other hand, if carryover stocks exceed a maximum desirable level, incentives encouraging storage in the FOR should be kept to a minimum. By limiting the use of FOR incentives in this manner, adequate but not excessive reserves would be provided for. BFW believes the minimum carryover needed for food security is about 20% of total annual use for wheat (about 500 million bushels) and about 12% of annual use for feed grains (about 1 billion bushels). The maximum U.S. reserve promoted by the FOR program should not be more than twice these levels.

These reforms would make the FOR program more effective and less costly. Storage payments to farmers would average about $300 million annually, much less than the cost of these payments in 1982 and 1983 when reserves were allowed to build excessively (the cost in 1983 was nearly $1 billion).

Coordination of Reserve Policy with Supply Management Programs

In addition to these changes in the FOR, Bread for the World believes that grain reserve programs should be better coordinated with supply management programs. We are proposing that some cropland be held in reserve when supplies are excessive to reduce surplus accumulation and recession in the farm economy. This cropland should be taken out of reserve when supplies are less plentiful and reserve levels are low. Administration of the program could be based upon the same target levels of carryover stocks used in the reserve program. Thus, if carryover levels are above the maximum desirable level cropland would be held in reserve, but would be released from reserve if carryover levels were reduced to less than the minimum target.

Such a cropland reserve program, together with reforms in the FOR, would help to ensure a reliable supply of grain and reduce the boom and bust cycles in agriculture. It would also contribute to resource conservation, particularly if priority is given to conservation benefits in choosing land for the reserve.

A. E. STALEY MANUFACTURING COMPANY 2200 ELDORADO STREET DECATUR, ILLINOIS 62525 TELEPHONE 217/423-4411

Testimony before the House Agricultural Feed Grains Subcommittee April 18, 1985, by Vernon R. McMinimy of A.E. Staley Manufacturing Company.

Mr. Chairman, Members of the Committee:

I am Vernon McMinimy, Director of Commodity Research for the A.E. Staley Manufacturing Company headquartered in Decatur, Illinois. My purpose in testifying is to increase awareness of the importance of corn refining to the disappearance of corn and some of the factors affecting that disappearance.

The A.E. Staley Manufacturing Company is a corn refining company operating six corn refining facilities in five states. During our past fiscal year we processed 142 million bushels of corn, producing over twenty major product categories and in excess of 600 distinctive products ranging from high fructose corn syrup to methyl glucoside, a chemical used in producing ureathane foam. Today refined corn products go into over 1100 food items.

We appreciate the opportunity of appearing before you today to share with you our concerns regarding some of the provisions of the 1985 farm legislation. We view the 1985 farm legislation as an important element in creating a healthy climate for the production and marketing of primary agriculture products such as corn, and for the products produced from corn such as high fructose corn syrup.

The features contained in the 1985 farm legislation will be most important to the economic health of both the American producers and value added processors like ourselves. Estimates indicate that $2.85 of value is added to every bushel of corn refined.

The corn refining industry is an important and growing customer for corn producers. Since 1971 its usage of corn has grown at a faster rate than that of any other major use. The average compound growth rate for corn usage since 1971 by major category is; 0.4 percent per annum for animal feed, 7.1 percent per annum for export, and 9.5 percent per annum for refining. The corn refining industry this crop year will use 800 million bushels - 325 percent more than it used in 1971.

The quantity of corn refined has grown steadily year by year while feed usage and exports have grown in an erratic pattern. In fact the usage of corn for feeding and export have fallen since the 1979/80 crop year while the refining of corn has continued to increase.

Corn utilization this year is projected to be below the 1979/80 level by 7.3 percent for feeding and 19.1 percent for export. The amount of corn refined this year will be 52 percent greater than in 1979/80. We believe refining will continue to be a growth market for the corn producer provided the economic climate for the industry is not soured through unfavorable legislation.

Whether the corn refining industry can remain a growth market for corn will be determined by the provisions of the 1985 farm legislation. Most of the growth in the corn refining industry's demand since the early 1970's has resulted from the development of high fructose corn syrup. In 1971 corn sweeteners consumed in the U.S. represented 17 percent of the caloric sweetener consumption. Today the usage of corn derived sweeteners accounts for 45.7 percent of the caloric sweeteners consumed in the U.S.

That would decline substantially if 1) the U.S. were to open its market to the world's sugar market with its dumping ground prices or, 2) if the U.S. legislation were to shift the sugar program from the loan support program presently in force to a low price support - direct payment program proposed by the Administration.

Presently, raw sugar is selling for below four cents a pound on what is called the world sugar market. No producer of world sugar or caloric sweeteners can produce at that price and come close to covering costs. In 1982, the weighted average cost of producing refined sugar for all sugar producing countries in the world was 23.8 cents per pound.[1] The U.S. corn refining industry is the most efficient producer of caloric sweeteners in the world (including sugar), but it can't touch four cents a pound.

Essentially every country in the world who produces and exports sugar, subsidizes the production and exports of its sugar. As a result, we see a world market for sugar that bears no relationship to the cost of producing sugar. The world market reflects the conditions of the dumping ground resulting from a highly subsidized international industry as opposed to a market reflecting the marginal cost of production in a free and openly competitive market. To open the U.S. to the impact of the collective subsidizing practices employed around the world would severely injure, if not destroy, the U.S. sweetener industry. That would have a very detrimental impact on the nearly 500 million bushels of domestic corn used as a feedstock for the production of sweeteners.

The Administration's proposal to alter the domestic sugar program does not make any sense to us. It shifts the current program from a loan support program, which has avoided any cost to the government, to a loan and direct payment program which would result in significant government payments.

First, such a program on its face goes against the Administration's efforts to reduce government expenditures. Secondly, it ignores the fact that half of the caloric sweeteners consumed in the U.S. is derived from corn. Under the Administration's proposal, those who produce corn sweeteners would not be covered by the direct payment program and would be left to wither on the vine. In addition, any reduction in use by the corn refining industry would either increase government's cost of maintaining the income of corn producers or worsen the corn farmers' economic problems.

It is through the use of corn as a feedstock for the production of corn sweeteners that we see a vital linkage between the sugar title of the 1985 farm legislation and the feed grains title. The technology that brought the production of sweeteners from corn brought a new vitality to the corn refining industry, a vitality that we believe can grow and expand. While profits have not been good these past three years, we have managed to fund a substantial research program to develop other new products from corn.

The new products and expansion of demand for current products may well boost the volume of corn used over the next few years at the same rate of growth experienced since 1971. Most of this increase will occur in the areas of chemicals from carbohydrates and power alcohol. This is the potential we see today, tomorrow's research could provide a breakthrough that would expand that potential significantly.

I don't want to be overly optimistic, nor do I wish to be too conservative. There exists circumstances which could lead to a sharp increase in the usage of corn derived products. For instance, we project that if the sugar production were free of government intervention around the world, the use of corn to produce sweeteners would be 1.0 billion bushels larger than it is now. Conversely, if the Administration's proposed sugar program is enacted, it would result in grave injury to the corn refining industry and its future utilization of corn.

The capability of progressing in these areas is dependent on the industry having the financial resources to support the research and capital investment required to develop the usage of corn for these purposes.

The development of new uses for corn is not only dependent on a healthy and thriving corn processing industry, but on a healthy and thriving corn producer.

Today the corn producer is faced with abnormally high interest rates, which is threatening his economic survival, also he is suffering from declining export markets due to the high value of the dollar and the policies of foreign governments. The producer is powerless in and of himself to counteract these macro economic forces. He looks to his government to act in his behalf to relieve him of these burdens - reduce the huge budget deficits that yield abnormally high interest rates and an abnormally high valued dollar. He also waits for the government to counteract foreign unfair trade practices to give him a level playing field to compete on.

In response to this, the Administration proposes to let the full weight of these forces fall on the shoulders of the producer. In its proposal, the Administration, in effect, tells the producer you shoulder the burden - you carry the high interest rates and the high dollar - and maybe we'll do something in time about the unfair trading practices. Frankly, when one considers that the Administration's program for sugar will hurt the domestic demand for corn, their promise to do something about foreign unfair trade practices lacks credibility. The Administration proposals add up to a program that will seriously injure the corn producer and the corn refining industry.

We ask that you, the enactors of the 1985 farm legislation, consider the needs of the corn producer and our industry. The future of both of us and the promise that it holds, will be materially affected by the legislation that you enact.

[1] World Survey of Sugar and HFCS Production Cost 1982 Update, Nov. 1983, Landell Mills Commodities Studies, Ltd., London, England.

Testimony of

GEORGE FLUEGEL, First Vice President
AMERICAN SOYBEAN ASSOCIATION

Mr. Chairman, my name is George Fluegel. I raise soybeans and corn near LeRoy, Illinois, and I'm currently serving as First Vice President of the American Soybean Association. I appreciate the chance to be here today.

The American Soybean Association is a national non-profit commodity organization controlled by soybean farmers. ASA has some 26,000 dues-paying members and receives financial support from 425,000 farmers in 26 states who voluntarily invest in ASA activities through checkoff programs. Its objective is to build profits for America's 520,000 soybean farmers. ASA's major activities include expanding exports, promoting domestic sales, sponsoring soybean research, working for favorable public policies and providing information.

Mr. Chairman, the state of agriculture in 1985 is not good. Farmers face low commodity prices, high interest rates and plummeting land values. At the same time, we find ourselves in a moment of rare opportunity: With the nation's attention focused on agriculture, we have a chance to renew America's commitment to a sound agricultural industry and put profits back in the picture for the country's farms.

Today's farmers are participants in the world marketplace whether they want to be or not. Producing solely for the domestic market is simply not an option unless we want to drive a great many of our farmers off the farm, for with close to 40 percent of all our crop acreage being planted for overseas markets, you just can't prop up prices high enough to make up for the loss in sales if we abandoned export markets.

If we're inextricably in the export market, then, we'd better be competitive: We'd better sell more rather than less. Yet, as we all know, after the export boom of the 1970s has come the export bust of the 1980s. Soybeans have suffered from declining export sales just like other commodities, with the present marketing year shaping up as a major disappointment: USDA estimates of soybean exports have fallen by 45 million bushels since January alone, and most trade analysts say the Department's figures are still over-optimistic.

What caused agriculture's export slump?

* The U.S. dollar rose dramatically against other currencies, so that U.S. exports became more expensive for our foreign customers to buy.

* World recession made demand fall; anemic recovery in many countries kept it down.

* Competing nations, such as the European Community, subsidized their exports and underbid the U.S. for market shares.

* The 1980 grain embargo shut the U.S. out of what was then a growing Soviet market and helped give our nation a reputation as an unreliable supplier.

- The international debt crisis caused Third World countries to reduce their imports and expand their exports, agricultural and otherwise, in order to improve their trade balances.

- Both importing and exporting nations increased their food production because of good weather, higher prices and other factors.

Each of these factors and many more played a part in making U.S. products less competitive. Three years ago ASA would have assured the Subcommittee that the United States was the most efficient supplier of soybeans in the world. We cannot make that claim today. In the last three years, we've seen our competitive advantage disappear -- not because of anything American soybean farmers have done or not done, but because of factors over which they can exercise no control: subsidies to foreign exporters, exorbitant real interest costs in the U.S., and most of all the rise in the value of the dollar.

It's instructive to compare the price of U.S. soybeans in our customers' currencies with the level of U.S. soybean exports to those countries. For virtually all of our top customers, the same pattern emerges: the effective price of U.S. soybeans to our customers rose in 1983 and 1984; the volume they bought dropped. That's first-semester economics, of course: demand falls as price rises. But today's world of floating exchange rates puts a new twist on the old principles, since American farmers don't have the higher prices to console them for the sales volume they're losing. U.S. prices have been flat or falling in recent years, while the effective price our customers pay has been rising. What our farmers know to be a lower price feels like a higher price to our foreign customers.

The U.S. dollar is high for several reasons. Congress should take a close look at all the factors involved. One reason the dollar is overvalued is that the real interest return on dollar investments is being kept higher than it should be because of excessive federal borrowing to finance the U.S. budget deficit.

Government is spending too much money. It must spend less. We believe deficit reduction should be the first priority of domestic policy, and that means restraining federal spending. Farmers are willing to accept their fair share of the cuts if others do likewise, but they don't believe it's fair for agriculture to undergo severe cuts while some other parts of government see only reductions in their rate of increase.

The American Soybean Association supports a pro-trade agricultural policy that will allow the United States to be the preferred supplier of agricultural products for the world market. The relevant question today is, what can Congress do to construct this pro-trade policy? How can Congress help us export our products? Let me offer several specific recommendations for your consideration.

Recommendation #1: Make Exports Title I

ASA believes agricultural export policy should be Title I of the new Ag Bill. It's time to declare to our competitors and our farmers that selling, not storing, is our top priority. We need to send a clear, unmistakeable signal to the world that we're in the market, and in it to stay ... that the United States is tired of absorbing the world's surpluses, and will no longer do it; that the United States is tired of providing its competitors a guaranteed price, and will no longer do it; and that the United States is tired of getting pushed around by other nations' subsidies and trade barriers, and will no longer tolerate it.

Export promotion should be not only the first title of the new Agriculture Bill, but also the first priority when budgetary priorities are set, as they inevitably must be. The reason is simple: U.S. agriculture cannot prosper without expanded exports, period. It therefore behooves the nation to achieve expanded exports. It behooves us to devote some resources to competing and selling. The rest of the world must become convinced we will sell our production, whatever it takes.

Recommendation #2: Expand Sales and Invest in Infrastructure

ASA supports a coherent system of Sales Financing and Infrastructure Development (SFID) as the best way to tailor our sales efforts to our customers' buying needs and abilities. This concept should have two primary applications:

- Direct Sales Expansion, primarily through credit packages for foreign purchasers of U.S. commodities, in the form of both direct credit and credit guarantees; and
- Infrastructural Investment to build up countries' long-term capacity to buy and utilize U.S. products.

Each application calls for somewhat different tools. Direct Sales Expansion, for instance, should include (1) traditional programs like GSM-102 guarantees and GSM-5 credits; (2) a new intermediate "bridge" program to provide export credit with 3-10 year repayment terms for countries who cannot meet GSM-102 terms but have moved beyond P.L. 480 donations; and (3) an enhanced Food for Peace program for countries at the bottom of the economic ladder -- perhaps in combination with the President's Food for Progress initiative.

Infrastructural Investment also makes long-term sense. Until a country can receive, store and distribute commodities efficiently, its potential as a U.S. market is limited. Far too many of its resources available for commodity imports are wasted on high freight costs, bagging, waste and spoilage. Infrastructure lending should be used to finance improvements in a country's capacity to handle, store, market, process and distribute U.S. commodities. Repayments should be set up on a 3-10 year schedule. A portion of the repayment should be made in local currency, and used by USDA-approved cooperator groups for market development activities within the country to develop even greater demand.

The SFID concept embraces forms of direct aid like Food for Peace. Where possible, though, it relies on providing financing packages which can make it more attractive to buy from the United States. There are other important ways of building sales and investing infrastructure: Funding for cooperative market development, for example, should continue, with adequate resources from both farmers and the public. Using all these tools, we can move toward our goal: supplier of first resort, not last. SFID can help the U.S. build markets, and keep them, and it can help farmers build profits.

Recommendation #3: Reform Maritime Subsidies

We will not be able to build markets, however -- indeed, we will not even be able to keep the ones we have -- if government insists on crippling the very programs designed to restore U.S. market share. One very pertinent example: the recent court decision that cargo preference laws must apply to USDA's blended credit program. Because cargo preference means higher shipping costs due to uncompetitive U.S.-flag rates, this decision basically prices the blended credit program out of the world market. The same thing will happen to the GSM-102 credit guarantee program if subsequent lawsuits render it subject to cargo preference as well. There's only one answer, Mr. Chairman: Congress must reverse this court ruling, and at the same time make a basic reform of the nation's maritime policies. Cargo preference is a subsidy to the U.S. merchant fleet, and as such it should not come out of the USDA budget. If our merchant fleet is a matter of national security, then we should directly subsidize the maritime industry as part of the Defense budget. We need truth in budgeting, and we need a total exemption from cargo preference for agricultural commodities, including those shipped under the Food for Peace program.

Until that happens, Mr. Chairman, your hands are tied: You cannot promote agricultural recovery through increased export sales without prohibitive budget costs. For the government to pay the costs of cargo preference just for Blended Credit and GSM-102 in 1985, it would cost $200 million. That's $200 million the taxpayers don't have and can't afford. Given the reduced budgetary baseline agriculture will and must operate under, does it make sense to spend limited resources to subsidize the maritime industry?

Recommendation #4: Keep Soybeans Price-Competitive

ASA asks Congress to continue one of soybean farmers' most valuable marketing tools, the soybean loan program. This program keeps U.S. soybeans price-competitive in world markets and guards against stocks buildups. The loan rate does not provide soybean farmers a guaranteed profit, nor should it. But it does serve as a source of credit and allows farmers to pursue flexible marketing strategies.

Under this program, the loan rate is set at 75 percent of the average market price received during the last five years, dropping the high and low years. There is a $5.02 minimum loan, which could drop if prices averaged less than 105 percent of the loan. That hasn't happened, but if it did, the loan rate could be reduced 10 percent per year, but not to less than $4.50 per bushel.

ASA believes that an extension of this loan program is the best way to make sure that the market sets the loan rate, rather than the loan rate setting the market. This in turn helps us compete overseas and prevents the creation of a "price umbrella" for foreign producers. For similar reasons, ASA opposes a target price, production controls, storage payments or a reserve program for soybeans.

Recommendation #5: Act Decisively to Expand Exports

America's agricultural export situation is critical. What's needed in the policy arena is imagination, courage and the willingness to try new initiatives. Sound arguments can be made, on theoretical grounds, against virtually any export promotion idea anyone can suggest. I would point out, though, that the people who make those theoretical arguments don't have to face the reality of seeing their markets dry up and their competitive advantage erode while their own government stands idly by. With that in mind, I'd like to offer some ideas for creative export initiatives -- concrete actions that could be taken now to increase U.S. sales abroad.

Decrease Foreign Currency Risk: The overvalued dollar, to paraphrase Mark Twain, is like the weather: Everybody talks about it, but nobody does anything about it. ASA proposes a way the United States could do something about it.

At present, we are losing sales that might otherwise be made under the GSM-102 credit guarantee program because of customers' fears that the dollar may appreciate against their currencies while they are repaying their loan. What looks like a good deal now might prove significantly more expensive for these countries if the dollar rises in value.

But what if the United States guaranteed these countries that they would not suffer from a rising dollar? Specifically, the U.S. might index the dollar, at the time of an export sale, to a basket of currencies. If the dollar rose relative to that basket of currencies while the customer country was repaying its loan, the customer would be held harmless for the rise in value: He would continue to repay only an amount equivalent to what he would have repaid if the dollar had not risen during the period. The U.S. government would make up the difference to the creditor who made the initial loan.

Use Surplus Stocks to Leverage Export Sales: The Commodity Credit Corporation's stocks of surplus commodities are clearly on an uptrend. Why not use these stocks to recover U.S. market share and counter the subsidies which our competitors have shown a clear unwillingness to end? For example, suppose a country purchases commodities using

GSM-102 credit guarantees. The U.S. might provide the buyer with commodity stocks equal in value to the total amount of interest to be paid during the life of the credit guarantee. In effect, the customer has received interest-free credit, but CCC stocks instead of taxpayer dollars have been used.

Use Surplus Stocks to Encourage Foreign Demand Enhancement: U.S. soybean producers compete with subsidized exports from Brazil. A large percentage (over half, according to the new democratic government of Brazil) of that nation's people have substandard diets, but Brazil has to export soybean meal and oil in order to generate foreign exchange to service its massive debts. Brazil has also been a major customer for U.S. wheat, much of it under the GSM-102 program. What if the U.S. struck a bargain with Brazil to export less and give its people more? The terms of the agreement might look like this: Brazil would hold soybean production constant -- but would pledge to decrease soy product exports below a baseline of recent years' exports. Instead of exporting this quantity of soy products, Brazil would divert it to domestic use: livestock and poultry feed, soymilk, etc. Brazilian poultry exports would also be held constant so the soybeans were not simply re-exported in the form of chicken.

By taking these actions, Brazil would be forfeiting a certain amount of foreign exchange. To compensate for this loss, the U.S. would "match" the Brazilian effort by donating surplus wheat from CCC stocks to Brazil. The amount of donated wheat would match, in value, the foregone soybean product exports.

What would be the effects of such a program? World demand for U.S. soybeans would rise, particularly if the initiative were maintained for two to three years; soybean prices could therefore be expected to rise somewhat; U.S. wheat stocks would be drawn down. But the benefits would extend considerably beyond U.S. agriculture: We would be helping Brazil to improve its people's diets through increased consumption of both soy protein and wheat, and strengthening its new democratic government.

Cease our government's funding of programs aimed at the expansion of foreign production of those commodities we export: For example, the Agency for International Development funds the University of Illinois for over $6 million, aimed at developing new ways to grow soybeans in the tropics. I don't have to tell you there are no tropical soybean areas in the U.S. And an ASA team that traveled recently in Brazil found that new varieties of soybeans were being developed there in cooperations with the University of Illinois. How much sense does it make to give U.S. tax dollars to improve the production of soybeans in Brazil when farmers can't make a profit growing and exporting them in the U.S.? If AID wants to spend its money wisely, why can't it help increase the consumption of Brazilian soybeans by millions of hungry Brazilians? Maybe then we will be able to make a profit from selling our beans to the markets previously served by Brazil.

Don't get me wrong. I have nothing against legitimate foreign aid to help developing countries better the lives of their people. Yet their betterment shouldn't come at our expense. We instead should be helping countries grow crops we need to buy or improving their ability to import, transport, and utilize the commodities we sell. We understand the U.S. government is currently spending in excess of half a billion dollars a year to develop agriculture in other nations. It's time that money be redirected to help build markets in foreign countries for American farmers. Otherwise, we will have to spend billions before long to develop our own agriculture after we have all gone broke.

These initiatives are only ideas, Mr. Chairman. There may be better ones. But ASA is convinced that the time has arrived for innovative thinking and creative action to reverse the disturbing downtrend in American farm exports. The consequences of inaction are likely to be severe.

ASA would like to thank the Subcommittee for considering our views on the 1985 Agricultural Bill. Our nation has some critical choices to make about agricultural policy. We must be honest enough to admit that the world has changed. What worked in 1935 may not work in 1985. Today's agriculture is a dynamic, changing industry that depends as never before on international markets. If it is to succeed, agricultural policy must respond to those markets.

Thank you for your attention, Mr. Chairman, and I'll be happy to try and answer any questions you may have.

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THE 1985 FARM BILL: A BLUEPRINT FOR SURVIVAL OR A DESIGN FOR DISASTER?

BY

VAREL BAILEY, PRESIDENT
THE NATIONAL CORN GROWERS ASSOCIATION

BEFORE

SUBCOMMITTEE ON WHEAT, SOYBEANS AND FEED GRAINS
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

ON

APRIL 18, 1985

MR. CHAIRMAN AND COMMITTEE MEMBERS: I AM VAREL BAILEY, THE FARMER-PRESIDENT OF THE NATIONAL CORN GROWERS ASSOCIATION (NCGA), AND A CORN AND HOG FARMER FROM ANITA, IOWA. THE MEMBERS OF OUR ORGANIZATION APPRECIATE HAVING THE OPPORTUNITY OF TESTIFYING TODAY BEFORE YOU AND YOUR COMMITTEE ON THE NEEDED PROVISIONS AND PROGRAMS FOR THE 1985 FARM BILL. AS MANY OF YOU MAY KNOW, OUR ORGANIZATION REPRESENTS CORN FARMERS IN SIXTEEN AFFILIATED MEMBER STATES: COLORADO, ILLINOIS, INDIANA, IOWA, KANSAS, KENTUCKY, MARYLAND, MICHIGAN, MINNESOTA, MISSOURI, NEBRASKA, NORTH CAROLINA, OHIO, PENNSYLVANIA, VIRGINIA AND WISCONSIN. IN ADDITION, THERE ARE INDIVIDUAL CORN GROWER MEMBERS IN ALL FORTY-EIGHT (48)

CONTINENTAL STATES. ACCOMPANYING ME TODAY IS JERRY FRANZ, THE NCGA VICE PRESIDENT OF OUR ORGANIZATION AND CHAIRMAN OF THE NCGA LEGISLATIVE AFFAIRS COMMITTEE, WHO GROWS CORN, WHEAT AND SOYBEANS IN WISCONSIN.

OUR ORGANIZATION HAS LONG SUPPORTED THE CONCEPT THAT PROFITABILITY FOR CORN PRODUCTION MUST COME FROM THE MARKETPLACE -- AND NOT FROM GROWING CORN FOR GOVERNMENT PROGRAMS. WE CONTINUE TO SUPPORT MARKET ORIENTED FARM PROGRAMS; FARM PROGRAMS THAT ARE DESIGNED AND SUPPORTED BY GOVERNMENT ACTION TO COMPETE IN THE INTERNATIONAL MARKETPLACE FOR GRAINS. HAVING PRESENTED THIS INTRODUCTORY STATEMENT ABOUT THE BASIC PHILOSOPHY OF THE NATIONAL CORN GROWERS ASSOCIATION, I WOULD LIKE TO SIMPLY SUBMIT OUR PREPARED STATEMENT FOR THE RECORD WITH YOUR PERMISSION, AND SUMMARIZE MY STATEMENT AND ATTEMPT TO ANSWER ANY QUESTIONS YOU AND THE OTHER COMMITTEE MEMBERS MAY HAVE.

OUR PRESENT FARM LEGISLATION HAS EVOLVED FROM THE NECESSITY OF PROVIDING THE AMERICAN PEOPLE WITH A STABLE AND PLENTIFUL SUPPLY OF FOOD AND FIBER. IN KEEPING WITH THIS GOAL, OUR PRESENT AGRICULTURAL SYSTEM HAS BEEN SUCCESSFUL BEYOND ANY IMAGINATION. NO OTHER AGRICULTURAL SYSTEM IN THE WORLD HAS DEVELOPED LIKE OUR SYSTEM SINCE THE INCEPTION OF U.S. AGRICULTURAL LEGISLATION.

IN THIS REGARD, WE WOULD LIKE TO SUBMIT TO YOU AND THE MEMBERS OF THE COMMITTEE A SYNOPSIS OF PROGRAMS AND PROVISIONS FOR THE

1985 FARM BILL THAT ARE A NATURAL EXTENSION OF THE GENERAL RESOLUTIONS ADOPTED AT THE 1984 ANNUAL CONVENTION OF THE NATIONAL CORN GROWERS ASSOCIATION. WE WILL COME BACK TO SEVERAL PROGRAMS AND PROVISIONS IN OUR SYNOPSIS OF FARM PROGRAMS AND PROVISIONS. IF THE FOLLOWING MEASURES WERE TO BE ENCOMPASSED IN THE 1985 FARM BILL, WE ARE CONVINCED THAT U.S. GRAIN AGRICULTURE WOULD BECOME MARKET ORIENTED ON THE BASIS OF COMPETITIVE PRICES IN THE EXPORT MARKET AS WELL AS PROVIDING THE NECESSARY MARGIN OF INCOME SUPPORT TO FARMERS DURING THE NEAR DEPRESSION-LIKE CRISIS THAT GRAIN FARMERS ARE EXPERIENCING IN THE UNITED STATES:

SYNOPSIS
OF
PROGRAMS AND PROVISIONS
FOR
THE 1985 FARM BILL

1. TARGET PRICE

   (A) FREEZE AT $3.18 PER BUSHEL FOR THREE YEARS; AND (B) AFTER THREE YEARS, ADJUSTED NO MORE THAN ONE-HALF (1/2) OF THE LOAN RATE ADJUSTMENT

2. LOAN RATE

   (A) FREEZE AT $2.55 FOR THREE YEARS; (B) AFTER THREE YEARS, 100% OF THE PAST FIVE YEAR AVERAGE (DELETING HIGH AND LOW YEARS) WITH NO MORE THAN A FIVE PERCENT ADJUSTMENT PER YEAR; (C) TO BE CHANGED IMMEDIATELY TO A "MARKET ORIENTED" LOAN RATE WITH PAYBACK BASED ON A "FIVE MONTH STATE AVERAGE FARMGATE PRICE" OR THE MAXIMUM OF THE LOAN RATE AND NOT SUBJECT TO THE PAYMENT LIMITATION; AND (D) LOAN BECOMES A RECOURSE LOAN WITH POSSIBLE EXTENSIONS AND STORAGE PAYMENTS

3. PAYMENT LIMITATION

(A) OPPOSES ANY LIMITATION; AND (B) IN THE EVENT OF A LIMITATION ON PAYMENTS, $50,000 PAYMENT LIMITATION APPLIES ONLY TO DEFICIENCY PAYMENTS AS DEFINED AS DIFFERENCE BETWEEN THE TARGET AND THE LOAN (OR MARKET PRICE IF IT IS GREATER THAN THE LOAN)

4. CONSERVATION ACREAGE RESERVE

(A) LONG-TERM (FIVE TO TEN YEARS); (B) SET BY A FORMULA BASED ON EXCESSIVE PRODUCTION CAPACITY; AND (C) PARTICIPATION ON A BID BASIS AND TARGETED TOWARD FRAGILE LANDS

5. RESERVE

(A) PHASE OUT TO A MINIMUM LEVEL OF 500 MILLION BUSHELS; MATURING FARMER OWNED RESERVE INVENTORY WILL BE PHASED INTO P.L. 480 PROGRAM; AND (C) CCC ACQUIRED INVENTORY UTILIZED AS STOCKS FOR EXPORT INCENTIVES AND AS AN EQUALIZER TO THE VALUE OF THE U.S. DOLLAR

6. EXPORT EXPANSION

(A) INCREASED FUNDING FOR USDA FOREIGN AGRICULTURAL SERVICE; (B) APPROPRIATIONS FOR THE EXPORT REVOLVING FUND; (C) P.L. 480 PROGRAMMING: DOUBLE THE APPROPRIATIONS IMMEDIATELY WITH THE INCREASE GOING INTO BOTH TITLE II AND III; (D) INCREASE APPROPRIATIONS FOR BOTH DIRECT AND GUARANTEED EXPORT CREDIT PROGRAMS; AND (E) IF IT IS U.S. POLICY TO PROVIDE FOR SPECIAL SUBSIDIES TO THE U.S. MARITIME INDUSTRY, THEN PROVIDE DIRECT APPROPRIATIONS FOR THE SUBSIDY (INCLUDE IN THE BUDGET OF THE DEPARTMENT OF DEFENSE) TO PREVENT THE REDUCTION OF THE AMOUNT OF MONIES AVAILABLE TO FEED THE HUNGRY -- AND STARVING -- PEOPLE IN DEVELOPING COUNTRIES

CENTRAL TO A SOUND FARM BILL IS THE MAINTENANCE OF AN INVESTMENT ENVIRONMENT THAT INSURES ADEQUATE RESOURCES DEVOTED TO PRODUCTION AGRICULTURE. TARGET PRICES HAVE PROVIDED AGRICULTURE A SAFEGUARD AGAINST SHORT-TERM CAPITAL FLUCTUATION IN A LONG-TERM CAPITAL INVESTMENT COMMITMENT. THE RESOURCES DEVOTED TO FOOD PRODUCTION ARE A DIRECT FUNCTION OF THE MARGINAL EXPECTATION OF PROFIT. TARGET PRICES PROVIDE THE BASIS FOR LONG-TERM AGRICULTURAL POLICY.

THEY PROVIDE THE CAPITALIZATION BASE (ASSET VALUATIONS) FOR PRODUCTION AGRICULTURE. THEY DIRECTLY TRANSLATE INTO LAND AND ASSET VALUES, WHICH IN TURN PROVIDE COLLATERAL FOR THE SECURING OF PRODUCTION CREDIT NEEDS. AS AN INVESTMENT FOR SOCIETY, TARGET PRICES ARE AN ESSENTIAL INGREDIENT IN OUR ABILITY TO PRODUCE FOOD AT THE WORLD'S LOWEST COST AS A PERCENT OF DISPOSABLE INCOME.

THE IMPLICATION THAT TARGET PRICES ARE NOT ESSENTIAL HAS BEEN ONE CAUSE FOR THE PRECIPITOUS DECLINE IN LAND VALUES ACROSS THE COUNTRY. PERPETUATION OF THIS IDEA WILL COMPOUND U.S. AGRICULTURE'S CREDIT CRISIS IN AN EXPONENTIAL FASHION. A RETURN OF TARGET PRICES TO THE LEVEL PRIOR TO THE 1984 TARGET PRICE FREEZE IS PARAMOUNT TO THE PRESERVATION OF A VIABLE U.S. AGRICULTURAL SYSTEM IN THE FUTURE.

AGRICULTURE IS VULNERABLE TO THE SHIMS OF MOTHER NATURE AND THE INTERNATIONAL MARKETPLACE. DOMESTIC/U.S. DEMAND FOR FOOD IS RELATIVELY INELASTIC. A VERY SMALL SHORTAGE OR EXCESS IN THE MARKETPLACE CAN CAUSE VERY WIDE SWINGS IN PRICES. SUCH MOVEMENTS INCREASE THE RISKS IN THE VERTICAL FOOD CHAIN, THEREBY INCREASING THE PRICE OF FOOD TO THE CONSUMER. OVER THE LAST FIFTY (50) YEARS, THE COMMODITY LOAN MECHANISM HAS NOT ONLY PROVIDED CRITICAL SHORT-TERM CREDIT REQUIREMENTS TO PRODUCTION AGRICULTURE, IT HAS ALSO SERVED THE DUAL FUNCTION OF PROVIDING A STEADY FLOW OF FOOD PRODUCTS AND LOWERED THE COST OF FOOD BY REDUCING THE RISKS OF WILD PRICE GYRATIONS FOR FARMERS AND PROCESSORS ALIKE. IT IS SURELY IN THE BEST INTEREST OF CONSUMERS, PROCESSORS AND FARMERS TO

FREEZE COMMODITY LOAN PRICES IN THESE VIOLENT WORLDWIDE ECONOMIC FLUCTUATIONS. HOWEVER, THERE ARE THREE MAJOR CHANGES THAT MAKE THE OLD COMMODITY LOAN MECHANISM OBSOLETE: (1) THE OPENING OF INTERNATIONAL TRADE IN THE EARLY 1970'S; (2) THE FLOATING OF WORLD CURRENCIES VALUES; AND, (3) THE SHARP RISE IN INTERNATIONAL TRADE PROTECTIONISM. ALL OF THESE THREE FACTORS ARE EXTERNAL TO, AND NOT SUBJECT TO, INFLUENCE FROM CONVENTIONAL U.S. AGRICULTURAL POLICY. THESE THREE EXTERNAL FACTORS REQUIRE INNOVATIVE MODIFICATION OF THE TRADITIONAL U.S. COMMODITY LOAN CONCEPT.

OF ALL THE ACCEPTABLE ALTERNATIVES AVAILABLE IN THIS MARKET ORIENTED ENVIRONMENT, THE MARKET ORIENTED LOAN MECHANISM IS THE BEST ALTERNATIVE. SUCH A LOAN MECHANISM ALLOWS U.S. FARMERS TO BE KNOWLEDGEABLE OF THE LOAN VALUE IN ADVANCE FOR THE MOST EFFICIENT PRODUCTION MANAGEMENT. THE PAYBACK PROVISION IS BASED ON THE MARKETPLACE. ANY PRICE LOWER THAN THE INITIAL LOAN RATE IS A MEASURE OF THE ACCUMULATED EFFECTS OF CURRENCY EXCHANGE RATES AND PROTECTIONISM AS PRACTICED NOW BY OUR COMPETITORS IN THE WORLD MARKETPLACE. WITHOUT THIS MECHANISM, WE JEOPARDIZE THE LONG-TERM ABILITY OF THE U.S. FARMERS TO PRODUCE FOOD. WE CANNOT ALLOW FOREIGN COUNTRIES TO SHUT DOWN THE MOST EFFICIENT AGRICULTURAL PLANT IN THE WORLD. U.S. FARMERS MUST NOT BEAR THE COST OF AGRICULTURAL POLICIES DECIDED BY FOREIGN GOVERNMENTS, AND THEIR NATIONAL TREASURY EXPENDITURES IN SUSTAINING SUCH POLICIES.

UPON CLOSER EXAMINATION OF THE MARKET ORIENTED COMMODITY LOAN MECHANISM, THERE ARE DISTINCTLY ADDITIONAL ADVANTAGES THAT WOULD ACCRUE TO U.S. FARMERS AND THE U.S. GOVERNMENT:

1. NO ACCUMULATION OF GRAIN STOCKS, AND SUBSTANTIAL REDUCTIONS IN GOVERNMENT OUTLAYS FOR STORAGE PROGRAMS:

    (A) ELIMINATION OF STORAGE PAYMENTS
    (B) ELIMINATION OF INTEREST ON STORAGE PAYMENTS
    (C) REDUCED GOVERNMENT BORROWING TO FINANCE SUCH PROGRAMS
    (D) REDUCED GOVERNMENT LENDING IMPACT ON FINANCIAL MARKETS

2. IN THE ABSENCE OF MULTI-YEAR GRAIN STORAGE, MARKET ORIENTED LOAN RATES WILL MOVE GRAIN FROM THE HARVEST TO THE MARKET WITHOUT AN APPRECIABLE DETERIORATION IN GRAIN QUALITY

3. ON THE BASIS OF PRICE AND QUALITY COMPETITIVENESS, THE UNITED STATES WOULD AGAIN BECOME THE PREFERRED SUPPLIER TO THE WORLD MARKET

4. THE MARKET ORIENTED LOAN RATE WOULD NOT PROVIDE A FIXED AND CLEAR PRICE SIGNAL FOR COMPETITOR COUNTRIES TO USE AS A PRICE TARGET FOR EXPORT MARKETING

5. DISCOURAGE INCREASED ACREAGE INTO GRAIN PRODUCTION IN FOREIGN COUNTRIES INASMUCH AS THE LEVEL OF THE MARKET ORIENTED LOAN RATE WOULD ADJUST TO CHANGING SUPPLY AND DEMAND SITUATIONS

6. WOULD INCREASE THE COST OF PROTECTIONISM IN FOREIGN COUNTRIES AND INCREASE THE EXPENSE FOR EXPORT SUBSIDIES OFFERED BY FOREIGN COUNTRIES INASMUCH AS U.S. FARMERS WOULD HAVE A FIXED MEASURE OF INCOME SUPPORT ALTHOUGH THE MARKET ORIENTED LOAN RATE WOULD ADJUST TO MEET WORLD PRICE COMPETITION

7. ELIMINATE THE RISING PRESSURES IN THE UNITED STATES FOR DIRECT EXPORT SUBSIDIES AND EXPANSION OF THE U.S. EXPORT CREDIT PROGRAMS INASMUCH AS THE U.S. MARKET ORIENTED LOAN RATE WOULD PERMIT U.S. PRICES TO MEET WORLD PRICE COMPETITION

8. INASMUCH AS THE MARKET ORIENTED LOAN RATES WOULD, THROUGH THE "PAYBACK" PROVISION PROVIDE INCOME SUPPORT TO FARMERS, THE APPLICABILITY OF CARGO PREFERENCE REQUIREMENTS WOULD BE RESTRICTED SIMPLY TO P.L. 480 EXPORT PROGRAMS

9. THE MARKET ORIENTED LOAN RATE WOULD BE A DOMESTIC PRICE SUPPORT PROGRAM FOR FARMERS, ELIMINATING ANY FOREIGN CLAIMS THAT U.S. GRAIN EXPORTS ARE IN FACT RECEIVING DIRECT EXPORT SUBSIDIES

10. THE MARKET ORIENTED LOAN RATE WOULD PERMIT BOTH DOMESTIC CONSUMERS AND FOREIGN CONSUMERS TO COMPETE FOR U.S. GRAIN AT THE SAME PRICE LEVELS

11. SUBSTANTIAL REDUCTION IN ADMINISTRATIVE COST ALONG WITH REDUCED EXPORT PROGRAM DEVELOPMENT AND SUPERVISION BY THE U.S. GOVERNMENT INASMUCH AS THE MARKET ORIENTED LOAN RATE MECHANISM WOULD PERMIT FOR PRICE TO BE THE MOST COMPETITIVE FEATURE OF U.S. GRAINS FOR EXPORT

WITHIN THE NEXT SEVERAL WEEKS, OUR ORGANIZATION WILL HAVE OBTAINED AN INDEPENDENT ANALYSIS OF EITHER THE COST OF OR THE EXPOSURE TO THE FEDERAL BUDGET FOR SUCH A MULTI-YEAR FARM BILL. PRELIMINARY ANALYSIS SHOW THAT THE MARKET ORIENTED LOAN RATE MECHANISM WOULD ACCRUE SUBSTANTIAL SAVINGS TO THE U.S. TREASURY WITHOUT ANY APPRECIABLE INCREASE IN U.S. OUTLAYS TO SUSTAIN SUCH A PROGRAM. AT THAT TIME, WE WILL BE PLEASED TO SHARE THE RESULTS OF THAT INDEPENDENT COST-SAVING ANALYSIS FOR OUR PROPOSED FARM BILL WITH YOU, MR. CHAIRMAN, AND THE MEMBERS OF THIS COMMITTEE.

THE INTERNATIONALIZATION OF THE U.S. AGRICULTURAL MARKETS HAS BEEN NOTHING SHORT OF EXPLOSIVE WHEN CONSIDERED IN THE HISTORY OF WORLD-WIDE COMMERCIAL TRADE. WORLD AGRICULTURAL TRADE HAS INCREASED FROM $26.8 BILLION IN 1955 TO $251.3 BILLION IN 1980. AS A NATION, WE HAVE COMMITTED OURSELVES TO COMPETE IN THIS COMPETITIVE ENVIRONMENT AS A WAY TO RAISE OUR NATIONAL STANDARD OF LIVING AND UTILIZE OUR GOD-GIVEN NATURAL RESOURCES. THE PROBLEM IS THAT THIS INTERNATIONALIZATION OF TRADE PLUS OUR DOMINANCE IN THE WORLD MARKETPLACE HAS RESULTED IN OTHER NATIONS DEVELOPING EXCESS CAPACITY BASED ON THE U.S. FIXED COMMODITY LOAN RATES. OTHER COMPETING

COUNTRIES SIMPLY SELL FOR A FEW CENTS PER BUSHEL LOWER THAN THE EQUIVALENT FOB VALUE OF THE U.S. LOAN RATE TO CAPTURE OUR MARKETS. THESE FOREIGN COUNTRIES KNOW TOO THAT THE U.S. WILL SIMPLY STORE THE EXCESS PRODUCTION THAT DOES NOT MOVE INTO THE MARKET. THESE FOREIGN COUNTRIES NOW KNOW ALSO THAT THE UNITED STATES, UNDER PRESSURES FROM MOUNTING SUPPLIES OF GRAIN, WILL SET ASIDE LAND TO LOWER OUR PRODUCTION BY THE AMOUNT OF THE INCREASE IN FOREIGN GRAIN PRODUCTION. IF WE CONTINUE TO FLOW THIS PATTERN IN THE FUTURE, WE WILL SHUT DOWN THE ONE U.S. INDUSTRY THAT HAS A CLEAR COMPARATIVE ECONOMIC ADVANTAGE IN THE WORLD AND DENY OUR CITIZENS THE BENEFITS OF OUR EFFICIENT AGRICULTURAL PRODUCTION.

THE INTERNATIONALIZATION OF THE U.S. DOLLAR -- ALONG WITH IT SERVING AS THE WORLD RESERVE CURRENCY -- MAY HAVE BEEN HERALDED AS MODERNIZATION OF WORLD MONETARY POLICY. BUT THIS INTERNATIONAL MONETARY SYSTEM HAS CAUSED DISTORTIONS IN INTERNATIONAL COMMERCIAL TRADE. THE WORST OF THESE DISTORTIONS IS THAT PROVIDED INCENTIVES TO FOREIGN COUNTRIES TO PRODUCE AGRICULTURAL PRODUCTS BASED ON THE VALUE OF THE U.S. DOLLAR, THE GERMAN MARK OR THE JAPANESE YEN RATHER THAN ON THE BASIS OF REAL DEMAND FOR SUCH PRODUCTION. BECAUSE OF THESE FALSE SIGNALS, THESE DISTORTIONS CREATED AN ILLUSION OF EUPHORIA IN THE 1970'S AND A REAL DISASTER IN THE 1980'S. THE CAPITALIZATION BASE FOR U.S. AGRICULTURE IN THE 1970'S IS NOW THREATENED WITH MASS LIQUIDATION. THIS CRITICAL LIQUIDATION OF THE U.S. AGRICULTURAL CAPITAL BASE IS BASED NOT ON SIGNALS OF DEMAND FOR AGRICULTURAL PRODUCTS, BUT RATHER ON FALSE SIGNALS OF CURRENT RELATIVE CURRENCY VALUES.

POLITICAL INTERRUPTIONS IN THE EXPORT FLOW OF U.S. AGRICULTURAL PRODUCTS, PLUS THE INHERENT SOVEREIGN DESIRE FOR FOOD SELF-SUFFICIENCY AROUND THE WORLD, HAVE BUILT A WORLDWIDE SYSTEM OF INCREASING DOMESTIC PROTECTIONISM FROM THE WORLD MARKETPLACE. THIS LOWERS THE STANDARD OF LIVING OF ALL CITIZENS OF THE WORLD COMMUNITY; PROTECTIONISM AND BARRIERS TO TRADE AGAINST THE MOST EFFICIENT PRODUCTION AREAS RAISE THE COST OF AGRICULTURAL PRODUCTS TO EVERYONE. INTERNATIONAL NEGOTIATIONS TO ALLEVIATE THESE TRADE BARRIERS OVER THE LAST TWENTY (20) YEARS HAVE BASICALLY BEEN OFFSET BY EMBARGOES AND OTHER POLITICAL ACTIONS BY THE U.S. GOVERNMENT. IT IS NOW OBVIOUS THAT COST TO THE TREASURIES OF SOME FOREIGN COUNTRIES IS THE FORCE THAT WILL REDUCE SUCH FOREIGN BARRIERS TO U.S. EXPORTS. NEVERTHELESS, SOME MECHANISM MUST BE DEVISED TO ALLOW OUR PRODUCTS TO ALWAYS BE AVAILABLE TO THE WORLD MARKETPLACE SO THAT U.S. FARMERS CAN RESPOND TO THE TRUE DEMAND OF THE WORLD MARKETPLACE.

WE APPRECIATE HAVING THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY, AND WILL ATTEMPT TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE ABOUT OUR TESTIMONY.

Texas Corn Producers Board

218 E. Bedford
Dimmitt, Texas 79027
Phone (806) 647-4224 or 647-5227

Testimony before the U.S. House of Representatives

Sub-Committee on Livestock, Wheat, and Feed Grains

April 18, 1985

Mr. Chairman and Members of this Committee:

I am Carl King, a farmer, livestock producer, and chairman of the Texas Corn Growers Association. I live in Dimmitt, TX, where I have farmed for over 30 years.

I appreciate the opportunity of being able to speak here today and present some thoughts and a Farm Policy we in Texas Corn Growers think is a workable, budget cutting plan that will improve farm income as well.

I realize that you have heard several testimonies in regard to the farm disaster we are now in throughout America. Farmers in the U.S. are probably in the worst financial condition of any time since 1931.

Our biggest problem is the U.S. farmer has the ability to produce more than can be sold. We also believe that the consumers of the country cannot expect to continually buy food and fiber at a price that is below the cost of production to the farmer.

The administrations so called Farm Policy would put the death keel to the farmers that are not already bankrupt.

Read Farm Crisis Program coupled with the Food and Fiber Security program:

If any Supply-Management program is adopted by the Congress that will allow agriculture to again make a profit, we are receptive to so the farmer can again start paying taxes, buying equipment, and putting the economy back where it should be.

As agriculture goes, economy wise, so goes the rest of the economy eventually.

Thank you for your time, I will be glad to answer any questions the Committee might have.

Carl L. King
President, Texas Corn Growers Association

CLK:sm

Texas Corn Growers Association

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CONCEPT FOR FARM POLICY 1985

01. Save the farmer financially.

02. Assure the American consumer of an adequate supply of food and fiber.

03. Establish a loan level on feed grains equal to the cost of production, which should be based on each region's individual costs, and including land and management costs.

04. No target would be required, provided the mandatory diversion is implemented, and the loan level raised to the cost of production, and including land and management costs. The diversion rate should be based on a national commodity base acreage, which should be a total of all acres. National commodity per acre yield, should be a five year average of the national per acre yield, adjusted to reflect average acre yield improvements (with the worst year of five deleted, just as ASCS does with proven yields). Cross compliance should be permitted.

05. Texas Corn Growers are convinced that each year, diversion acres should be adjusted according to carryover stocks of feed grains. Depending on weather conditions from year to year, the diversion should be flexible enough to assure an adequate supply of grains for domestic use as well as exports.

06. A 2-price loan system will be required to assure grain farmers they can be competitive in world markets. The high U.S. dollar, coupled with embargos, sanctions, and unfair trade practices of other world countries, leaves us no other choice but to advocate a 2-price system (a) one for domestic equal to the cost of production, and (b) payment in kind to the producer, who participates in the lower loan to help keep the price of U.S. commodities competitive in world markets. To further increase our competitiveness we advocate subsidizing foreign buyers with payment-in-kind of the commodity in surplus, the difference in the exchange rate out of C.C.C. stocks. This would help further more volume, reduce storage cost and interest rates by C.C.C. and employ more people. We employ more than one million now and we need to add to this employment roll. Our foreign competitors constantly violate the Gatt Agreement and subsidize exports. Hopefully this would not violate Gatt, and if so it is time to fight "fire with fire". Enclosed is a late cost of production in corn growing areas of West Texas. Presently our growers are losing some $40.00 / acre, based on an average of 8960 lbs. / acre, irrigated yield at $5.10 /lb. during harvest.

CARGO PREFERENCE

This law also costs farmers as it is protectionism to the American shippers who sell grain under PL480 or other government programs. Here again is why we must have some protection if we are to stay in business. We have long believed in free enterprise and free markets, but this animal is dead for the time being. We would like to see Sunset legislation passed on the law or an amendment that no shippers can utilize PL480 to sell grain unless farmers loan level covers the cost of production including land and management costs.

FARM DEBT

In 1971 farm debt in the U.S. was $54 billion. In the early 80's farm debt as a percentage of annual net farm income has risen approximately 800%.

FARM CREDIT

FmHa and SBA producer debts should be restructured and reamortized, and private lending institutions should be given an incentive to do the same. The President's announced program to roll back loans for 5 years up to $200,000.00 maximum would be one incentive to private lending institutions to help their borrowers. With the huge farm debt now incurred, it cannot be retired for years, even with better farm prices created by cost of production loan levels.

STREAMLINING A LONG TERM FARM POLICY

Texas Corn Growers believe that a long range farm program is possible if all producers cooperate and convince Congress and the Administration that without a profit to producers, chaos will prevail in agriculture, and in turn the entire nation will suffer. We are at crossroads. We can adopt a program of supply management, or we can stand still as we are now and let agriculture and the nation go down the drain.

Texas Corn Growers contributes to research, marketing, and development, but this is not enough. Legislation is the quickest avenue and legislation based on the above recommendations of supply-management that works for agriculture as well as the nation.

Budget reduction and taxpayer savings include (1) less storage and paid in kind out of CCC stocks (2) less freight (3) less interest,and (4) less administrative costs. More profit in agriculture includes more employment, more taxes to the Treasury and more buying power from the farmer. This program is designed to save billions to the taxpayer and at the same time improve farm income. Grocery prices may have a slight increase at times, but this is insignificant compared to the benefits to the overall economy and budget decreases and will assure an adequte supply of food and fiber at reasonable prices and take out the highs and lows.

If a long term land retirement program is enacted or any other funding to the producer is adopted, the $50,000.00 limitation should be abolished.

In order for livestock producers to raise their own products, they should be allowed to grow feed grains under the lower export loan program, but under no circumstances should not be allowed to market that product on the open market.

SUGAR PROGRAM

The Sweetener Act now in effect is working well without any cost to the government. Since corn sweeteners are a large part of the corn growers business, TCGA recommends that the act remain as it is.

SUMMARY

We in Texas Corn Growers cannot understand how Congress and the Administration can adopt policies that guarantee the farmer a loss, and expect him to pay back loans to the government and private lending institutions.

NATIONAL FOOD AND FIBER SECURITY PROGRAM

I. Objective:

To secure an adequate but manageable U. S. production of food and fiber

A. To assure the American consumer of a consistent and abundant supply of U. S. farm products

B. To assure the world that the U. S. will be a reliable and aggressive exporter of agricultural commodities

C. To eliminate government cost

II. Implementation:

A. A National Production Goal shall be established by the Secretary of Agriculture for each basic food and fiber commodity each year. The National Production Goal for a given year will be the estimated consumption (domestic and export) plus a National Security Reserve. Any carryover brought into the marketing year would be subtracted from this amount before establishing the National Production Goal.

1. The Estimated Consumption for the year will be determined by the Secretary of Agriculture based on known consumption in previous years, world market and production trends, and international political agreements.

2. A National Food and Fiber Security Reserve will be maintained by the Secretary of Agriculture as a safeguard against unpredictable world weather and market conditions. The National Security Reserve will be limited to no more than 16% of the normal annual consumption. Storage and interest on the National Security Reserve will be paid by the government. The National Security Reserve will be divided into two categories:

a. One-half (8%) of the reserve may be released after the national average market price has reached 110% of the National Commodity Security Price.

b. The second half (8%) may be released aftar the market price reaches 115% of the National Commodity Security Price.

3. Any Carryover stocks in excess of the Security Reserve will be deducted from the National Production Goal. This annual adjustment will prevent surplus from building.

ESTIMATED CONSUMPTION + SECURITY RESERVE - CARRYOVER = NATIONAL PRODUCTION GOAL

B. Normal Cropland Acreage (NCA)

1. A Farm NCA will be established for each farm by a five-year average of the total acres planted to basic crops, including PIK and ARP acreage.

2. A National NCA will be determined by a five-year average of the total basic crop acres, including PIK and ARP acreage, not to exceed the total of all Farm NCAs.

C. Commodity Base Acreage

1. A Farm Commodity Base Acreage will be established as follows:

    a. Each farmer may divide his Farm NCA into Commodity Base Acreage that best suits his land, water, fertility and rotation pattern. Total acres of all his Commodity Base Acres may not exceed his total Farm NCA or the farm's total cultivated acreage--whichever is smaller. Once established, Farm Commodity Base Acreage will remain constant except when exchanged as follows:

    b. A farmer may exchange one Commodity Base Acreage for another Commodity Base Acreage, provided:

        (1) Signup for exchange is made in the County ASCS Office three months prior to announcement of the following year's Commodity Program by USDA. This will allow USDA adequate time to adjust the National Commodity Base Acreage and the National Production Quota.

        (2) Exchange may not exceed 20% of Farm Commodity NCA per year.

2. The National Commodity Base Acreage will be the total of all Farm Commodity Base Acres.

D. The National Commodity Per-acre Yield will be a five-year average of national per-acre yields adjusted to reflect average yield improvement trends.

E. The National Commodity Production Acreage will be determined by dividing the National Production Goal by the National Commodity Per-acre Yield.

NATIONAL PRODUCTION GOAL ÷ NATIONAL PER-ACRE YIELD = NATIONAL PRODUCTION ACREAGE

F. The National Commodity Quota will be determined (in percentage) by dividing the National Commodity Production Acreage by the National Commodity Base Acreage.

NATIONAL COMMODITY PRODUCTION ACREAGE ÷ NATIONAL COMMODITY BASE ACREAGE = NATIONAL COMMODITY QUOTA

The National Commodity Production Quota will then be applied in the same ratio to each Farm Commodity Base Acreage.

Example: If the National Commodity Production Quota is 85% of the National Commodity Base Acreage, each farm may plant 85% of the Farm Commodity Base Acreage.

1. The remaining acres will be placed in a soil and water conservation program (Conservation Acres).
   a. No harvested production will be permitted on Conservation Acres.
   b. Conservation Acres must be rotated annually. No land may be counted as Conservation Acres more frequently than every third year.
   c. Conservation Acres must be managed according to conservation requirements of local ASCS.
2. A severe penalty will be imposed for non-compliance.
3. Total cross compliance will be required.
4. A marketing card will be required for sales of commodities. Compliance will be necessary to receive a marketing card.
5. Substitution will be allowed when a crop is destroyed by natural disaster after the planting date for that crop. A release must be obtained through the local ASCS.

G. National Commodity Security Prices

To assure adequate and constant supplies of food and fiber, it is necessary to assure the average producer that his reasonable production costs will be recovered. A National Commodity Security Price will be set by the Secretary of Agriculture at the national average cost of production, using the average tenant cost of production as computed by USDA on three-year average yields. The National Commodity Security Price will be assigned to each region according to the normal price differential caused by market demand, transportation costs, etc. (similar to current CCC Loan allocations).

1. Purchases or sales of farm commodities will not be permitted at prices below the National Commodity Security Price for the region except for normal quality discounts for grades below normal trading quality.
2. CCC Commodity Loans will be made to producers at county average National Commodity Security Price less all carrying charges (such as storage and interest) at rates equal to government cost on each. This will assure that there will be no net cost to the government in administering the loan program to enable producers to follow an orderly marketing program.

U. S. SHARE OF WORLD PRODUCTION AND TRADE

	PRODUCTION		U. S. SHARE OF PRODUCTION	EXPORTS		U.S. SHARE OF EXPORTS (5-yr. av.)	5-YR. RANGE
	U. S. (metric tons)	WORLD		U. S. (metric tons)	WORLD		
Corn	194.9	420.7	46.3%	57.3	72.7	78.8%	72.6% - 83.8%
Sorghum	19.4	64.3	30%	6.8	12.66	53.7%	46.3% - 69.6%
Wheat				51.5	110.9	46.4%	43.3% - 48.7%

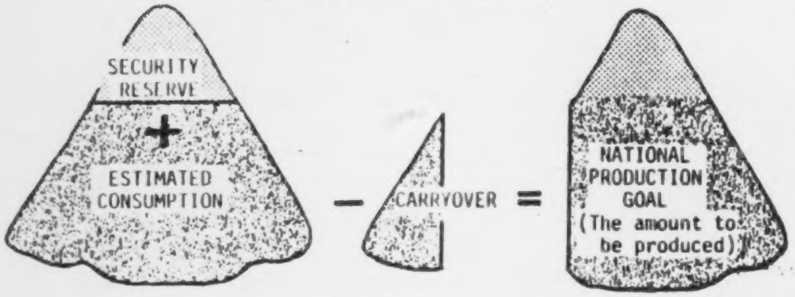
II. Exports

Export of agricultural products is essential to the balance of trade and the general economy of the United States. To establish itself as reliable and stable trader, the U. S. should announce to the world that we will maintain our recent average share of the total world export market and our share of any increase in world consumption and, if necessary, will use:

1. Subsidies to exporters to keep the price of U. S. commodities competitive in the world market

2. Credit programs equal to foreign competition.

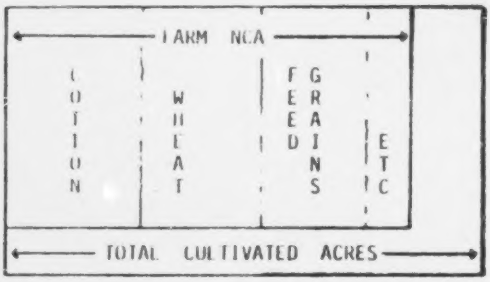
NATIONAL FOOD AND FIBER SECURITY PROGRAM



ESTIMATED CONSUMPTION + SECURITY RESERVE - CARRYOVER = NATIONAL PRODUCTION GOAL

* * * * *

FARM NCA - FIVE-YEAR AVERAGE OF ACREAGE PLANTED TO BASIC CROPS



NATIONAL NCA = TOTAL OF ALL FARM NCAs

A FARMER MAY DIVIDE HIS NCA INTO COMMODITY BASES

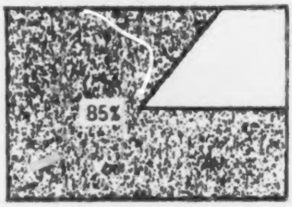
NATIONAL COMMODITY BASE = TOTAL OF ALL FARM COMMODITY BASES

* * * * *

NATIONAL COMMODITY PRODUCTION GOAL ÷ NATIONAL COMMODITY PER-ACRE YIELD = NATIONAL COMMODITY PRODUCTION ACREAGE

* * * * *

NATIONAL COMMODITY PRODUCTION ACREAGE ÷ NATIONAL COMMODITY BASE ACREAGE = NATIONAL COMMODITY QUOTA



NATIONAL COMMODITY QUOTA WILL BE APPLIED TO EACH FARM COMMODITY BASE

COSTS OF PRODUCTION

CORN

Projected Yield - 160 Bu. per Acre
8960 lbs. Per/Acre (56# Per Bu.)

		SPRINKLER				ROW-WATERED			
Variable Costs	Unit	Price Per Unit	Quantity	Cost	Your Cost	Unit	Price Per Unit	Quantity	Cost	Your Cost
Pre-harvest										
Seed	Lbs.	1.00	18.00	18.00	$	Lbs.	1.00	18.00	18.00	$
Insecticide	Acre	12.50	2.00	25.00		Acre	12.50	2.00	25.00	
Fertilizer	Acre	51.20	1.00	51.20		Acre	51.20	1.00	51.20	
Herbicide	Acre	12.00	1.00	12.00		Acre	12.00	1.00	12.00	
Machinery	Acre	2.18	1.00	2.18		Acre	2.18	1.00	2.18	
Tractors	Acre	15.76	1.00	15.76		Acre	15.76	1.00	15.76	
1/* Irrigation Machinery	Acre	85.85	1.00	85.85		Acre	83.79	1.00	83.79	
Labor (Tractor & Mchry)	Hour	5.00	2.89	14.45		Hour	5.00	2.89	14.45	
Labor (Irrigation)	Hour	5.00	0.79	3.96		Hour	5.00	3.00	15.00	
2/* Interest	$$$	.15	76.13	11.42		$$$	.15	79.12	11.37	
Sub-Total				239.82					249.25	
Harvest										
Combine	Bu.	0.25	160	40.00		Bu.	0.25	160	40.00	
Haul	Bu.	0.15	160	24.00		Bu.	0.15	160	24.00	
Drying	Bu.	0.12	160	19.20		Bu.	0.12	160	19.20	
Sub-Total				83.20					83.20	
Fixed Costs										
Machinery	Acre	14.08	1.00	14.08		Acre	14.08	1.00	14.08	
Tractors	Acre	25.20	1.00	25.20		Acre	25.20	1.00	25.20	
Irrigation Machinery	Ac./In.	24.00	1.61	38.64		Ac./In.	30.00	1.06	31.80	
3/* Land (Rent)	Acre	90.28	1.00	90.28		Acre	93.70	1.00	93.70	
Sub-Total				168.20					164.78	
TOTALS				$491.22	$				$497.23	$

1/* Includes Fuel, Lubrication and Repairs
2/* Based on 4 Month Growing Season
3/* Based on Landlord's Share 25% of gross less 25% of drying and 50% of Irrigation Fixed Cost

This material has been prepared at the request of the Texas Corn Producer's Board as a guide only, and is not intended to reflect the costs or production of any one farm. Space has been provided for individual producers to figure their particular costs in any given year.

TESTIMONY FOR
DAVID SENTER
NATIONAL DIRECTOR
AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. Chairman, and members of the Committee, I am David Senter, National Director of the American Agriculture Movement, Inc. The AAM proposals and farm bill positions have been hand delivered to every Congresssional offices and submitted to all Agriculture Chairmen and Commiteemen. We have consistantly urged legislation that would return parity pricing using a mandatory supply management program. We come to you this time in a realistic mood, knowing that 100% parity is needed for this nation to prosper, yet being realistic to the degree we now urge it be phased in.

Many have urged cost of production be used instead of parity. USDA proved AAM right in 1983 when the cost of production formula was changed removing labor, management and return on investments from their figures. This allowed USDA to lower the cost figures by one-third. Parity is the only yardstick to measure the purchasing power of the farm dollar. Webster defines parity as being equal. Equal is not unfair!

AAM still believes the programs should be based on loan rates. There are as many ideas as people on the new farm legislation. We fail to see the logic in selling export commodities to Russia, Japan and other customers who can afford to pay a fair price, cheaper. That is the result of lowering the loan rates. We have PL 480, export credit, export PIK and many ways to sell food to third world countries and those that cannot afford the price.

Look at our trade imbalance, look at what we are subsidizing Russia's military buildup with, selling tham food below our cost of production.

We hear a lot of words about lowering the price and breaking the European Commonmarket. If we did, we would be the first to rush in through the International Monetary Fund and bale them out.

The United States should call a meeting of producing nations to establish production levels, market shares and, yes, even prices. What's wrong with establishing a fair price for our national resources?

The farmer's income cannot be protected with target prices. The payment limitation prevents larger farmers from using the program. AAM proposes eliminating targets and using higher loan rates to cut down on costs.

We support a referendum for a mandatory program based on bushels and pounds. Acreage controls will never work without slippage in production. We feel the level of diversion should be established from inventory stocks. This method will allow changes year to year to meet both export and domestic demands.

AAM has always urged that wheat, soybeans and feed grains all be included in the program. You hear a lot from the commodity groups to leave soybeans out. Mr. Chairman, we have as many soybean farmers loosing their farms as wheat farmers. The program is not working for farmers.

We have a university study that compares 80% parity to the free market approach, the costs are the same. Pairty only costs 4.4 billion in 1986, with a zero cost each year thereafter. Loses in the Farmers Home Administration will amount to over 4.4 billion unless we get a price at the farm gate. Call it emergency legislation, all it the 1985 farm bill, we con't care, agriculture is in a state of collapse and you and I both know it. Just to keep prices the same is of no help. Farmers can't pay now. Higher prices are the only thing that will solve our problem and your problem. All the credit programs, insurance programs or any other idea won't substitute for a fair price in the market place.

Once again, AAM urges you to consider an approach that worked in past years. Don't continue an experiment that has failed both you the the farmer in this country. Attached are the American Agriculture Movement's farm bill proposals.

Thank you for the opportunity to appear before this committee.

AMERICAN AGRICULTURE MOVEMENT, INC.
1985 FARM BILL PROPOSAL

The American Agriculture Movement, Inc., in convention and meetings held across the country assembled and proposed the following to be included in the 1985 farm bill.

The 1985 farm bill must include:

-**Production Controls**: establish a mandatory program through referendum by farm operators with quanity controls (bushels, bales, pounds, etc.) in addition to a 10% acreage reduction. Production levels should be established according to inventory stocks.

-**Loan Rates**: Loan rates set at not less than 70% of parity (the average cost of production) on all storable agriculture commodities including milk. Minimum non recourse loan term shall be 36 months with loan rates increasing 2% annually thorught 1996 and remain at 90% parity thereafter; storage rates for on-farm storage and commercial storage shall be the same.

PROPOSED ANNUAL LOAN RATE INCREASE

Year	Parity
1986	70%
1987	72%
1988	74%
1989	76%
1990	78%
1991	80%
1992	82%
1993	84%
1994	86%
1995	88%
1996	90%
1997	90%
1998	90%
1999	90%

-**Food Reserve**: A national food reserve shall be established (to guard against food shortage) and released only when a food shortage has been declared by the House and Senate agriculture committees. Inventory stocks of each commodity shall be set by the Ag secretary and shall be managed by the Commodity Credit Corporation (CCC).

-**Imports**: All agricultural products (livestock, poultry, dairy, fish, vegetables,

-more-etc...) shall be labeled as to the country of origin. Any processed or co-mingled product shall be labeled as such. All imported products shall have equal inspections and meet same standards as domestically produced products. Products containing residues of U.S. banned chemicals shall not be allowed to be imported into the U.S. Red meat imports shall be controlled by a price trigger and reflect a parity level consistant with other ag commodities and no ag product shall be allowed entry at less than the domestic price as provided for in the G.A.T.T. (General Agreement on Tarriffs and Trades) anti-dumping agreements.

-Exports: The U.S. should use subsidies to maintain our market share in world trade and this device should include export PIK, adequate credit, interest-buy-down, etc. U.S. subsidies should match those used by foreign governments hidden or direct.

-Farm Tax Loopholes: There should be a maximum write-off of $20,000 for non-farm income through tax-loss farming.

-Soil Conservation: The existing soil conservation programs shall be continued and expanded in problem areas.

-Farm Credit (FmHA): Reschedule farm debt on a case-by-case basis to allow the operation to meet cash-flow requirements necessary to continue operation. Terms of the loan (20 year maximum) shall be established by a county committee. The county committee shall be elected by farm operators in a county referendum and shall be a functioning loan committee of no fewer than five people! Three of which must be farm operators, elected by their peers which will in turn appoint two others, one from the financial community, and one holding a public office. New applications must be accepted for consideration and any economic emergency (EE), emergency disaster (EM), or operating (OL) loans not acted upon within 60 days must be automatically approved.

-ASCS: County ASCS committees shall make all decisions relating to soil and water conservation practices, including cover crops, haying and grazing dates, etc. The ASCS community committee must be continued with no fewer committees than in place in 1980.

STATEMENT OF THE INDIANA FARM BUREAU BEFORE THE SUBCOMMITTEE ON WHEAT, SOYBEANS AND FEED GRAINS OF THE HOUSE COMMITTEE ON AGRICULTURE WITH REGARD TO FARM PROGRAMS FOR WHEAT, SOYBEANS AND FEED GRAINS UNDER THE 1985 FARM BILL

Presented by

Donald E. Henderson, Director of National Affairs Department
Indiana Farm Bureau, Inc.

April 18, 1985

Indiana Farm Bureau, Inc. has a membership exceeding 257,000, and is the states largest general farm organization. I serve as director of National Affairs Department for Indiana Farm Bureau and I am also part of a family owned farm in Henry County, Indiana. I appreciate the opportunity to appear before this Subcommittee on Wheat, Soybeans and Feed Grains of the House Agricultural Committee regarding Farm Bureau's position on the grain and soybean positions on the 1985 Farm Bill.

I would like to address some of our concerns of the Administration's proposed Farm Bill and Farm Bureau's answer to improve farmers income.

While Farm Bureau supports reductions in government spending, it cannot support a farm program based solely on budget considerations. Agriculture will take its share of the cuts in our federal budget, but because of the depressed situation in agriculture, we cannot go as far as the Administration proposes.

Our opposition to the Administration's plan can be summed up simply: it cuts farm programs too far, too fast.

We agree with the Administration that commodity loans should be set at market clearing levels, and that the farmer owned reserves should be eliminated.

LOAN RATES

In regard to commodity loan rates, the Administration set the rate at 75 percent of the market average price for the three previous years. Farm Bureau's Farm Bill is similar as it sets the rate at 75 percent of the five year average market price excluding high and low years. However, Farm Bureau's Farm Bill protects the farmers from a rapid decrease in the loan rate by preventing any rate adjustment by more than 10 percent in any year. The Administration's proposal does not provide this long range safety net for stability in agriculture.

FARMER OWNED RESERVE

Both Farm Bureau and the Administration agree that the farmer-owned reserve needs to be eliminated. Farm Bureau's Farm Bill will replace the reserve with the regular nine month loan program and an extension for an additional nine months. This would give the farmer eighteen months to find a suitable market, but avoids the long term accumulation of stocks that has been one of the major failures of the farmer-held reserve.

TARGET PRICES

The Administration's plan would reduce and phase out target prices. Farm Bureau's policy recognizes that income supplements are necessary as the farm policies of the past are phased out and a new course is set for agriculture. In this regard Farm Bureau's Farm Bill supports the concept of target prices as an income supplement to help producers make the adjustment to the market place. Farm Bureau proposes to freeze target prices for 1986 at the 1985 level. Beginning in 1987, target prices would be set at 110 percent of the five year market average, excluding the high and low years. Target prices could not be adjusted by more than 5 percent in any year. This will allow the target price to continue to provide income protection and over time begin reflecting the action in the market place.

PAYMENT LIMITATION

The Administration's proposal would also limit deficiency payments to farmers in the amount of $20,000 in 1986, $15,000 in 1987 and $10,000 from 1988 on. The Administration's intent is to stop providing large payments to large farm producers.

Farm Bureau opposes this drastic reduction in deficiency payment amounts. Even "small" farmers need deficiency payments in excess of what the Administration proposes. Also, larger farmers need to have their operations protected by the changes in the farm programs that we are discussing. Farm Bureau's Farm Bill would maintain the current $50,000 limit on deficiency payments.

For similar reasons, Farm Bureau opposes the $200,000 cap placed on non-recourse loans in the Administration's Farm Bill. Farm Bureau believes that the size of a farming operation should be determined by the market place and farm management abilities, and not by government limitations.

EXPORT PROGRAMS

Total Indiana agricultural exports declined by 25 percent from 1981 (2.0 billion dollars) to 1983 (1.5 billion dollars). Over the same period U. S. agricultural exports declined 21 percent (from 43.8 billion dollars to 34.8 billion dollars). The National Commission on Agricultural Trade and Export Policy is expected to release a report in a few days that will conclude part of the reason for the decline is a lack of a long-term farm program that is linked to profitability for agricultural users, and a lack of aggressiveness in the use of foreign market development measures.

The Administration's Farm Bill calls on the U.S.D.A. to identify nations hurting U.S. agricultural trade and seek reductions in trade barriers.

While Farm Bureau applauds these efforts, farmers need trade expansion sooner than what the Administraion's proposal provides. Agriculture cannot survive this delay.

Under the Farm Bureau plan, considerable efforts are to be made through export promotions, export credits and trade relations. Support is given to the continuation and expansion of past programs with particular emphasis on expansion of the CCC Export Credit Program and the development of new programs under the PL-480 program.

Farm Bureau also proposes the Bonus Incentive Commodity Export Program (BICEP), which is an export expansion program, where available CCC stocks are used as no-cost-bonus commodities, to offset the adverse effect of export subsidies of competing farm export countries and to develop new markets. This program is to be implemented when CCC stocks are in excess of minimum carry-over requirements and is based on savings in annual storage costs.

Farm Bureau also believes that a two year extension of the current farm program would not be beneficial to farmers. Farm Bureau urges Congress to adopt its Farm Bill this year.

In summary, the 1985 Farm Bill needs to allow farmers to eventually move closer to the market place. At the same time it must provide needed protection against unfavorable world market conditions that exist today. It will take time for our farmers and ranchers to work their way back to the market place, and Farm Bureau's Farm Bill will provide the time that it will take for our farm economy to become more self-reliant.

STATEMENT OF
SHERWIN GARDNER,
VICE PRESIDENT FOR SCIENCE AND TECHNOLOGY,
GROCERY MANUFACTURERS OF AMERICA, INC.
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
WHEAT, SOYBEANS AND FEED GRAINS SUBCOMMITTEE
APRIL 18, 1985

Mr. Chairman, members of the Committee. I am Sherwin Gardner, Vice President for Science and Technology of the Grocery Manufacturers of America, Inc. (GMA).

GMA is a 75 year old national trade association. Our membership is comprised of over 130 companies which manufacture food and non-food products sold in retail grocery stores throughout the United States. Our member companies employ over 2.5 million people nationwide and have total annual sales in excess of $250 billion.

I have been with GMA since 1979. Prior to joining GMA, I served as Deputy Commissioner of the U.S. Food and Drug Administration for seven years. My undergraduate and graduate education is in the field of engineering research and development, and my duties at GMA include technical aspects of food protection.

GMA appreciates this opportunity to appear before the Committee to discuss the need to require national uniformity in tolerances for pesticide residues in food, both raw agricultural commodities and manufactured products. We believe this is a matter of great importance to agricultural producers as well as food manufacturers.

A national uniformity requirement is needed because virtually every State has one or more laws regulating the safety of pesticides in food, and repeated attempts to achieve national uniformity in the enforcement of these laws have been unsuccessful. Pesticides are of critical importance to food production in this country, and our nationwide food production and marketing system depends upon uniformity in their regulation.

We are asking the Committee to consider this matter now because of the recent experience arising from use of the pesticide ethylene dibromide (EDB).

The State of Florida in December 1983, because of safety concerns over consumer exposure to EDB, took unilateral action in banning any food product that contained any measurable amount of EDB.

To make a long story short - about two months after Florida's action, the EPA established new safety standards for raw grain, intermediate products, e.g., cake mixes, flour and ready-to-eat foods. In the judgment of a large number of independent scientists, these standards provided a wide margin of safety to the public. Not only did GMA member companies pledge to meet the federal standards, they instituted special manufacturing controls to rid the food supply system of EDB treated grain products as soon as possible. They also provided data to federal and state agencies to demonstrate the status of EDB residues in grain based foods.

Notwithstanding strong federal action and a determined effort by industry to meet and exceed Federal tolerances, several states including Massachusetts, New York, Maine, Texas, New Jersey and California each adopted different standards. These standards, which in some cases were impossible to meet, did not provide the public with any additional health protection. For the first time in the modern history of federal regulation of the nation's food supply, states abandoned the Federal safety standard for agricultural commodities and manufactured foods marketed throughout the country. Generally speaking, today there are four different requirments for EDB residues: One is the federal regulation; Massachusetts and Maine have a second different set of regulations; New York and New Jersey have a third set which differs from the first two; and California has yet a fourth different level.

Thus, food growers, processors and manufacturers had to deal with inconsistent state and federal standards affecting the marketing of grain and products manufactured from that grain. Compliance with different and inconsistent standards is difficult, if not impossible, for the food industry which is, after all, national in scope. A given batch of grain, for example, may be grown in one state, stored for a period of time in another, processed into finished product in a third, sent to a distribution warehouse in a fourth state, and from there sold to consumers in half a dozen states nearby. It is not feasible for a manufacturer to prepare one batch of food to meet the standards of one state and another batch to meet a different standard in a second state. In the same way, it is not feasible for a grower to set aside one part of his crop for sale in one state and another part of his crop for sale in a second state.

Actions by states to set different standards also creates confusion in international markets. The Soviet Union, for example, expressed concern over the EDB action to U.S. wheat exporters. As a result they agreed to accept grain that did not have residue levels greater than those set by EPA.

Finally, the EDB episode should not be viewed as an exception that won't be repeated. EPA now is reviewing approximately 300 food use chemicals and the thousands of tolerances related to these uses. As decisions are reached by EPA, there should be assurance that major disruptions in food production and marketing will not occur.

A National Uniformity requirement for pesticide residues in food would avoid such disruption in agricultural and food production while affording a high standard of protection to the health and safety of consumers. As we visualize it, legislation should be sharply focused on residue tolerances:

- It should preclude any state or locality from establishing or enforcing any standards for pesticide residues in food if such standard is within the scope of federal law and if the state or local standard is in addition to or different from federal law.
- It should also authorize states to petition the federal government to adopt standards for pesticide residues in food.
- It should permit state and local governments to petition the federal government for an exemption from any federal standard based upon specific criteria including a showing of compelling or unique local circumstances.

It is important to emphasize that such a national uniformity requirement would not affect the rights of states to regulate the use of pesticides as they currently do. It should not pertain in any way to the registration of pesticides nor should it pertain in any way to the application of pesticides. The law with respect to registration and application should remain unchanged by this measure. All that would be covered is tolerance levels pertaining to pesticide residues in food.

We believe the development and promulgation of safety standards for pesticide residues in food nationally produced and marketed is properly a matter for the federal government.

The Congressional mandate to regulate the chemical use on raw agricultural commodities is national in scope. EPA and FDA must decide what is "safe". In addition, they must make decisions which are in the national interest -- not in the interest of a particular state or region; not in the interest of an individual manufacturer or a specific process; not in the interest of either business or other special interest groups. Their responsibility is to serve the best interests of consumers throughout the nation.

Food production, distribution and manufacturing are a truly national undertaking. According to the USDA, in 1983, 47 of the 50 states produced principal crops valued at over $68 billion. Twenty-five percent of this agricultural produce moved to the export market. A significant portion of the remaining seventy-five percent: the wheat from Kansas, and the plain states; the corn from Iowa, Illinois, Indiana; the vegetables from California, Florida, Texas and Michigan; and the fruit from Oregon, Washington and New York, was transported to more than 21,000 domestic food manufacturers and processors. In 1980, for example, these companies processed and sold domestically and abroad more than 338 billion package units for food valued at $245.6 billion.

These hundreds of billions of food items have an important component in common -- their wholesomeness and safety are evaluated, regulated and closely monitored by the federal government. For manufacturers to supply safe, wholesome food, at reasonable price levels to consumers across the country, EPA and FDA must be able to establish and enforce a single safety standard for pesticide residues that are found in food.

The explanatory statement we are submitting to the Committee describes the legislative and regulatory history relating to the control of pesticide residues, and also includes a description of a legislative approach.

In concluding, we would like the Committee to know that other groups are supportive of national uniformity. The Administrative Conference of the U.S. in December of 1984 issued a report and recommended that Congress and the Federal agencies directly address the problem of national uniformity in order to protect nationwide interests. The Association of Food and Drug Officials at its meeting in June 1984 adopted a recommendation from a special committee on uniformity to develop specific areas of regulation where national uniformity requirements would be endorsed, including pesticide residues. Finally, we have received support from a number of state food and agricultural organizations for a national uniformity requirement for pesticide residues.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions from the Committee.

SG/scw
1389L
4/15/85

(Attachments follow:)

April 18, 1985

EXPLANATORY STATEMENT ON THE NEED FOR NATIONAL UNIFORMITY IN THE REGULATION OF THE SAFETY OF PESTICIDES IN OR ON FOOD

National uniformity is essential in the regulation of the safety of pesticides in or on food in order to permit national production and marketing of all food products without jurisdictional barriers.

Background

Virtually every State has one or more laws regulating the safety of pesticides in or on food, and repeated attempts to achieve national uniformity in the enforcement of these laws have been unsuccessful. Pesticides are of critical importance to food production in this country, and our nationwide food production and marketing system depends upon uniformity in their regulation.

The growth of State and Local laws. In the early days of this country, food was consumed where it was grown. As urban cities began to develop in the 1800s, local food markets were established to fill the need. Town ordinances were adopted to regulate the food supply in those days. As our cities grew larger, and food distribution expanded, County laws were established to regulate the food supply as well. By the mid-1800s, States were also enacting regulatory laws in this area. Because food production and distribution was still primarily a local or regional matter throughout the 1800s, however, there was no Federal law establishing a nationwide food safety policy until after 1900.

The enactment of Federal laws. Shortly after 1900, Congress enacted two laws to regulate pesticides in food: the Food and Drugs Act of 1906, and the Insecticides Act of 1910. Because of the narrow interpretation of the Commerce Clause by the Supreme Court at that time, however, both statutes were very limited in their jurisdiction. Food produced and distributed locally was not covered. Supreme Court decisions during the early 1900s therefore ruled that these Federal laws did not preclude different requirements in State and Local laws.

Both of these early Federal laws were subsequently replaced by more modern laws that regulate virtually every aspect of the safety of pesticides in food: the Federal Food, Drug, and Comestic Act of 1938 and the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, both of which have since been amended numerous times. By the time these laws were enacted, however, it was too late for them to serve as a model for State and Local legislation or to make enactment of State and Local legislation unnecessary in this area. The tradition of State and Local laws regulating the safety of pesticides in food was already well-established and has continued to this day.

The repeated failure of non-legislative attempts to achieve national uniformity. Following enactment of the Food and Drugs Act of 1906, FDA's predecessor agency, the USDA Bureau of Chemistry, made major efforts to achieve national uniformity in this area. The 1914 Annual Report of the Bureau of Chemistry reported cooperative efforts with State officials that "should very largely overcome the lack of uniformity."[1] A report on the progress achieved during the first ten years under the 1906 Act, contained in the 1917 Annual Report, related attempts to deal with "much confusion and apparent conflict between the local and Federal laws and the local and Federal administration of the laws," resulting in "extra cost, which naturally was passed on to the ultimate consumer."[2] The 1921 Annual Report similarly reflected the fact that "both officials and manufacturers complained greatly of the lack of uniformity in the exercise of food control by the Federal and State Governments:"[3]

> "Lack of uniformity increases the cost of doing business, and the increased cost is usually passed on to the consumer. It arises not merely from differences in the various laws but also from differences in the interpretation of the laws by the officials and the application by them of different standards to the same product in different jusrisdictions."

FDA has repeatedly sought to deal with this problem in the years since then.

State and Local officials have also been concerned about this problem. The Association of Food and Drug Officials (AFDO), whose membership includes regulatory officials from all of the States, was formed in 1897 for the purposes of producing uniformity in food and drug regulation and has continuously urged that principle ever since.[4] In 1941, for example, the Association's president criticized "trade barriers that forced many producers and manufacturers to live under the virtual dictatorship of localized bureaucracy" and urged State food and drug officals to "discourage the enactment of laws that make it impossible for legitimate industry of one state to engage in trade in another under conditions which are fair and equitable."[5] That year, AFDO adopted a resolution expressing "disapproval of the tendency toward the enactment of legislation which constitutes definite barriers to Commerce between the states."[6] Numerous similar resolutions have been adopted by AFDO since then.[7] Nonetheless, in 1973 the Association passed yet another resolution acknowledging, as well as disapproving, "a growing trend that . . . some States and local agencies are passing laws, regulations, or ordinances which are inconsistent with the principle of uniformity to which A.F.D.O.U.S. is committed."[8] More recently, AFDO has established still another committee to study the matter.

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[1] 1914 Annual Report at 1, reprinted in Food Law Institute, Federal Food, Drug, and Cosmetic Law Administrative Reports, 1907-1949 321 (1951).

[2] 1917 Annual Report at 12-13, id. at 366-367.

[3] 1921 Annual Report at 7, id. at 459.

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[4] W.F. Reindollar, The Association of Food and Drug Officials, 6 Food Drug Cosm. L.J. 52 (1951).

[5] 5 AFDOUS Quart. Bull. 2 (1941).

[6] 5 AFDOUS Quart. Bull. 8 (1941).

[7] E.g., 4 AFDOUS Quart. Bull. 3-4 (1940); 31 AFDOUS Quart. Bull. (Proceedings Issue) 73 (1967); 33 AFDOUS Quart. Bull. (Proceedings Issue) 46-47 (1969).

[8] 37 AFDOUS Quart. Bull. (Proceedings Issue) 19 (1973).

Numerous other national reports have reflected on, and disapproved, nonuniform laws and regulations in this area. In 1939, a USDA report on "Barriers to Internal Trade in Farm Products" found varying or inconsistent State requirements created increasingly serious barriers to national food distribution.[9] A study conducted by the Public Administration Service for FDA in 1963 on State and Local food and drug programs concluded that:

> "The general food and drug laws of the states fail to reveal a basic uniformity among themselves or an adequate correspondence with federal legislation. *** Differences in laws and regulations are excessive, and many serve no useful purpose; the total body of state and local food and drug laws is a confusing and disjointed mass."[10]

The National Commission on Food Marketing, established by Congress in 1964 to appraise the marketing structure of the food industry, stated that "conflicts among the profusion of State regulations . . . are a significant burden on interstate trade in food products" and concluded that:

> "We therefore believe that a concerted effort should be made to effect uniformity among State regulations that obstruct trade in foods across State lines."[11]

The Report of the White House Conference of Food, Nutrition and Health in 1969 similarly found that "under present Federal,

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[9] USDA, Barriers to Internal Trade in Farm Products (1939).

[10] Public Administration Service, A Study of State and Local Food and Drug Programs 8 (1965).

[11] Food From Farmer to Consumer: Report of the National Commission on Food Marketing 112 (1966).

State and local law, different and often inconsistent regulatory requirements . . . prevail throughout the Nation" and that these requirements:

> "result in artifical trade barriers the impede the orderly marketing of foods, hinder sound nutrition, raise the cost of new foods to consumers, and directly interfere with the public interest. *** This situation cannot be justified on public health grounds, and reflects the lack of any attempt to establish and maintain a national policy on foods that reflects the interest of consumers."[12]

The Report of the White House Conference therefore recommended "Uniform application of all regulatory requirements throughout the Nation, enforceable by Federal, State, and local officials."

Congress has also recognized the unproductive burden that inconsistent State requirements impose upon farmers, food processors, and consumers. The 1906 House Report on the legislation that ultimately became the Food and Drugs Act of 1906 stated that:

> "the laws and regulations of the different States are diverse, confusing, and often contradictory. What one State now requires the adjoining State may forbid. Our food products are not raised principally in the States of their consumption.
>
> State boundary lines are unknown in our commerce, except by reason of local regulations and laws, such as State pure-food laws. It is desirable, as far as possible, that the commerce between the States be unhindered."[13]

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[12] Report of the White House Conference on Food, Nutrition and Health 117, 124-125 (1969).

[13] H.R. Rep. No. 2118, 59th Cong., 1st Sess. 5-6 (1906).

When Congress considered enactment of a new national food and drug law in the 1930s, the 1935 Senate Report on that legislation, which ultimately became the Federal Food, Drug, and Cosmetic Act of 1938, acknowledged the "problem of uniformity" and stated that the "States have unanimously urged the Federal Government to take leadership in modernizing existing law."[14] Neither the 1906 Act nor the 1938 Act expressly required national uniformity, however, and such uniformity has therefore not been achieved.

None of these non-legislative attempts have brought the country closer to national uniformitiy in the regulation of the safety of pesticide in foods. It is apparent that non-legislative approaches have repeatedly failed and will continue to fail in the future.

The importance of pesticides to food production. Pesticides make a major contribution to a plentiful and wholesome food supply by protecting it from insect destruction and insect-carried disease. USDA has estimated that losses due to pests, insects, and disease run as high as 40 percent in some countries.[15] The National Academy of Sciences has stated that, in the United States, insect control annually prevents about $6.5 billion in agriculture losses.[16] Pesticides thus increase farm income, reduce inflation in food costs, and permit American families to spend less of their income on food.

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[14] S. Rep. No. 361, 74th Cong., 1st Sess. 3 (1935).

[15] Council for Agricultural Science and Technology, Impact of Government Regulation on the Development of Chemical Pesticides for Agriculture and Forestry, Rep. No. 87 (January 1981).

The critical need for uniformity in a nationwide food production and marketing system. Although food production and marketing began as an entirely local matter in the early 1800s, the United States has now become one large nationwide food market. Pesticides are used in food production throughout the country, and that food is in turn distributed in every State throughout the nation. Local and even regional markets have disappeared.

Nonuniform laws, regulations, and other requirements have a direct and immediate impact upon food production. Conflicting tolerances for pesticides in or on food, or different labeling requirements, discourage food processors from using the food, confuse and scare food retailers and consumers, add substantial cost to the distribution and marketing of food, and thus disrupt farm markets and reduce farm income. Uniform national regulation of the safety of pesticides in or on food is essential to a sound national agricultural program.

Inconsistent determinations, or additional regulatory requirements, result in an enormous economic burden upon consumers, for no public health benefits. Taxpayers should support a single uniform safety determination, not duplicative determinations in every State throughout the country. Conflicting or additional regulatory requirements in different jurisdictions require the food industry to pay more for compliance, disrupt normal marketing practices, and thus increase food prices to consumers.

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[16] National Academy of Sciences, Regulating Pesticides 18 (1980).

Citizens who live in one part of the country are no less entitled to protection than those who live in another. Our citizens also travel widely throughout the country, and are entitled to the same protection in every State they visit. Determinations about the safety of pesticides in or on food must therefore be consistent in every jurisdiction in this country.

State and Local enforcement of uniform requirements for the safety of pesticides in or on food will enhance a safe food supply throughout the country and thus increase consumer protection. Deploying State and Local resources away from duplicative and conflicting safety determinations, and into enforcement of uniform national regulatory policies, represents the wisest expenditure of public funds.

In an article published in 1983, the Counsel to the Vice President stated that President Reagan's New Federalism initiative, which is designed to encourage greater responsibility at the State and Local level, includes:

> "recognition that state and local administration of regulatory programs may conflict

> in some instances with other goals of regulatory relief or with other important federal interests. For example, individual states may operate specific programs more effectively than the federal government, but the combined effect of disparate state regulatory standards may intolerably burden interstate commerce, thus requiring uniform federal regulation."[17]

Recognizing "the need for a strong central government to promote commerce and other federal interests," he distinguished between those matters that are primarily local in nature and those that involve such "burdens on interstate commerce" that national uniformity is required.

As recently as December 1984, the Administrative Conference of the United States issued a report and recommendation that echoed these principles.[18] While recognizing that "state governments are normally in a better position than the federal government to determine the types of regulations that will serve the interest of the states' citizens," the report also found that "States sometimes have an incentive, however, to impose regulations that advance state interests at the expense of other states' interests or of national interests." The report concluded that, because of the limited "checks on state regulation that harms the national interest:"

> "states possess, in practice, the power to make regulatory choices that produce net benefits within the state but that produce

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[17] C.B. Gray, Regulation and Federalism, 1 Yale J. Reg. 93, 95-96 (1983).

[18] 49 Fed. Reg. 49838 (December 24, 1984).

> substantial net detriments on a national level. Without an additional federal constraint on state regulatory power, states can be expected to regulate in this manner frequently."

The Administrative Conference therefore recommended that Congress and the Federal agencies directly address the problem of national uniformity in regulatory policies in order to protect nationwide interests.

Principles That Should Be Reflected in Legislation to Establish National Uniformity in the Regulation of the Safety of Pesticides in or on Food

National uniformity legislation is needed to reflect the intent of Congress to assure a safe and reasonably priced food supply for consumers. Such legislation would protect the interests of food producers, food distributers, and food consumers alike.

The purpose of the legislation. National uniformity legislation should be designed to assure uniformity in both safety determinations and the resulting regulatory requirements and prohibitions involved in the regulation of the safety of pesticides in or on food. Federal laws, regulations, and interpretations should be controlling throughout the country. State and Local officials should enforce these Federal determinations, thus assuring more widespread, complete, and thorough application of these uniform determinations. To make certain that any local needs are not overlooked, however, the legislation should also provide for exemptions from the general rule of national uniformity where they are justified.

The coverage of the legislation. The legislation should provide for national uniformity in the regulation of the safety of pesticides in or on food under two federal statutes: the Federal Food, Drug, and Cosmetic Act and the Federal Insecticide, Fungicide, and Rodenticide Act. Under these statutes, EPA registers pesticides, establishes tolerances for residues in or on raw agricultural commodities of a pesticide registered for use with those commodities, and promulgates food additive regulations for residues in processed food made from the raw agricultural commodities for which a pesticide has been registered. FDA establishes concern levels, action levels, and tolerances for pesticide residues for which EPA has not taken appropriate action under its authority, establishes all requirements for food labeling related to the safety of pesticides, and enforces both EPA and FDA pesticide requirements as they relate to food products. Taken together, these Federal statutes authorize EPA and FDA to regulate every aspect of the safety of pesticides in or on food.

The types of regulatory decisions included. The legislation should apply to both formal and informal regulatory decisions made by EPA and FDA within the scope of the two Federal statutes involved. These include decisions made under the two statutes in the form of regulations and interpretations. EPA and FDA decisions relating to the safety of pesticides in or on food may, for example, be announced through formal regulations or through informal speeches, press releases, letters, and personal discussion. Such decisions may come in the form of specific regulatory requirements or prohibitions, or in the form of conclusions that no action is justified. Informal decisions are often as important as formal decisions. The legislation should therefore apply equally to whatever type of regulatory action or inaction is involved.

The regulatory decisions that should be included under the legislation may be in the form of a requirement or prohibition or a decision not to take regulatory action. For example, EPA and FDA may impose limits on residues, a requirement for information to appear on product labels, or posters in stores or restaurants, or may decide any or all of these are not warranted. All of these types of regulatory decisions should be included within the legislation.

The legislation should not, however, cover regulatory decisions relating to the safety of pesticides other than in or on food. Thus, the legislation should not relate to the registration or application of pesticides. It should not in any way cover the safety of workers who manufacture pesticides or the safety of workers who are applying pesticides to foods or who are in the vicinity when pesticides are applied to food.

Federal-State cooperation. The legislation should explicitly provide that State and Local officials may exercise concurrent jurisdiction with EPA and FDA to enforce requirements or prohibitions identical with those established under Federal law. Such State and Local enforcement would greatly strengthen consumer protection. To facilitate uniform national regulation, the legislation should require EPA and FDA to cooperate with State and Local officials by providing relevant information and training programs, and by entering into contracts for enforcement activities. These requirements would reflect a longstanding joint commitment of Federal and State officials to uniform national enforcement of regulatory requirements and prohibitions relating to the safety of pesticides in or on food.

Adoption of State requirements as Federal requirements. The legislation should reflect the fact that State and Local governments, with long experience in the regulation of pesticides in food, may well have useful suggestions for improving EPA and FDA implementation of the Federal statutes regulating the safety of pesticides in or on food. Any State or Local government could petition EPA or FDA to adopt by regulation, as a Federal requirement or prohibition, an existing or proposed State or Local requirement or prohibition. Within 180 days after receipt of any such petition, EPA or FDA should be required to respond and specify the action that is being taken on it. This would assure State and Local officials that their voices will be heard, and would require EPA and FDA to review and take action upon any State or Local suggestion. In this way, the experience of State and Local officials would be directly reflected in Federal decisions.

Exemptions for State and Local governments. Although as a general rule, requirements and prohibitions involving the safety of pesticides in or on food should be uniform throughout the country, there may be some situations where exceptions are justified on a local basis. The legislation should therefore specifically allow State or Local governments to petition EPA and FDA for an exemption from the general rule of national uniformity. The Federal agency involved could promulgate a regulation granting such an exemption, after notice and opportunity for an oral hearing, under whatever conditions are appropriate to protect Federal interests.

To justify such an exemption, the State or Local government should be required to demonstrate either that there are compelling and unique local conditions that do not exist elsewhere in the United States, or that the subject matter involved is primarily local in nature and the Federal agencies are not exercising jurisdiction over it. In both cases, the exemption should be required to be further justified by a showing that the State or Local requirement or prohibition protects an important pulic interest, would not cause any food to be in violation of Federal law, and would not unduly burden interstate commerce. Under these circumstances, a State or Local government would be permitted, through the exemption, to impose its own nonuniform requirement or prohibition that is in addition to or different from the Federal requirements and prohibitions, but no other jurisdiction could do so without obtaining its own exemption.

A State and Local advisory committe. Because a truly effective uniform national implementation of all laws regulating the safety of pesticides in or on food depends upon strong State and Local cooperation, the legislation should provide for the establishment by EPA and FDA of an advisory committee comprised of five State and Local officials engaged in this area of regulation. This advisory committee should be charged with assuring that State and Local interests are fully protected and considered in EPA and FDA decisions relating to the safety of pesticides in or on food. It would be responsible for coordinating the views of all State and Local officials working in this area, for presentation to EPA and FDA, and in turn disseminating important imformation from EPA and FDA to State and Local governments. In this way, communication and coordination would be substantially improved and more effective enforcement of the law would be fostered throughout the country.

SUPPORT FOR THE CONCEPT OF NATIONAL UNIFORMITY IN PESTICIDE RESIDUE REGULATION

STATE ORGANIZATIONS

Alabama

Alabama Farm Bureau	Dick Fifield Director, National Affairs

Arkansas

Agricultural Council of Arkansas	Cecil Williams Executive Vice President

California

California Chamber of Commerce	Jim Van Maren Manager, Agriculture Group
California Citrus Mutual	Joel Nelsen Executive Vice President
California Farm Bureau	Merlin Fagan Director, Environmental Affairs
California Grain and Feed Association	Paul Stephany Associate Director
California League of Food Processors	Larry Taber President
California State Board of Food and Agriculture	Marilynn Bonin Executive Officer
California State Grange	John Welty Legislative Director
Western Growers Association	Terry Stark Vice President Government Affairs

Florida

Florida Agricultural Research Institute	Ben Abbott President
Florida Citrus Processors Association	Cliff Peasley Executive Vice President
Florida Citrus Mutual	Bobby McKown Executive Vice President
Florida Farm Bureau	Al French Director, Public Affairs
Florida Fruit and Vegetable Association	George Sorn General Manager

Illinois

Illinois Agriculture Association	Leonard Gardner Executive Director, Governmental Affairs
Illinois Corn Growers Association	John Campen Manager
Illinois Fertilizer and Chemical Association	Lloyd Burling President
Illinois Grain and Feed Association	Bill Lemon Executive Director
Illinois Pork Producers Council	Michael Sondag Executive Director

Indiana

Indiana Corn Growers Association	Dennis Messersmith President
Indiana Farm Bureau	Donald Henderson Director, National Affairs
Indiana Fertilizer and Chemical Association	Jeffrey Beose Executive Director
Indiana Grain and Feed Association	Jeffrey Beose Executive Director
Indiana Institute for Agriculture, Food and Nutrition	Robert Book Executive Director
Indiana Pork Producers Council	Joseph Dierdorf Executive Vice President

Iowa

Iowa Corn Growers Association	Evan Stadlman Executive Director
Iowa Farm Bureau	Ted Yanacek Assistant Director, National Affairs
Iowa Fertilizer and Chemical Association	Winton Etchen Executive Vice President
Iowa Pork Producers Council	Mike Telford Executive Director

Kansas

Kansas Council of Farmer Cooperatives	Nancy Kantola Executive Vice President
Kansas Farm Bureau	Paul Fleener Director, National Affairs
Kansas Fertilizer and Chemical Association	Tom Tunnel Executive Director
Kansas Grain and Feed Association	Tom Tunnell Executive Director
Kansas Wheat Growers Association	Gerald Riley President

Kentucky

Kentucky Farm Bureau	Ron Pryor Assistant Director, Public Affairs
Kentucky Pork Producers Association	Tom Runyan Executive Director

Louisiana

American Sugar Cane League	Charles Hodson Executive Vice President
Louisiana Cotton Producers Association	Dan Logan President

Michigan

Michigan Farm Bureau	Al Almy Director, Public Affairs

Mississippi

Delta Council	Chip Morgan Executive Vice President

Nebraska

Nebraska Corn Growers Association	Jack Moors Executive Director
Nebraska Council of Farmer Cooperatives	Bob Andersen President
Nebraska Farm Bureau	Trent Nowka Vice President, Public Affairs
Nebraska Fertilizer and Chemical Association	Bob Anderson Executive Vice President
Nebraska Grain and Feed Association	Bob Anderson Executive Vice President
Nebraska Livestock Feeders Association	Paul Johnston Executive Vice President
Nebraska Wheat Growers Association	Ron Stoddard Executive Director

North Carolina

North Carolina Farm Bureau	Robert Jenkins Assistant to President
Virginia-Carolina Peanut Association	Randolph Carter Executive Secretary

Oklahoma

Oklahoma Farm Bureau	Frank Moore Director, Government Relations
Oklahoma Grain and Feed Association	Joe Neal Hampton Executive Vice President
Oklahoma Wheat Growers Association	Elmo Brinkman President

Texas

Texas Agricultural Chemical Association	Jon Fisher Director of Research
Texas Citrus and Vegetable Association	Bill Weeks Executive Vice President
Texas Citrus Producers Mutual	Ray Prewett Executive Vice President
Texas Corn Growers Association	Carl King President
Texas Farm Bureau	Vernie Glasson Director, Public Affairs
Texas Pork Producers Association	Ken Horton Executive Vice President
Texas Wheat Producers Association	Bill Nelson Executive Vice President

Virginia

Virginia-Carolina Peanut Association	Randolph Carter Executive Secretary

Washington

Northwest Food Processors Association	David Pahl President
Washington Association of Wheat Growers	Brent Heinemann Executive Director
Washington Farm Bureau	Donald Ahrenholtz Executive Vice President

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SUPPORT FOR THE CONCEPT OF NATIONAL UNIFORMITY IN PESTICIDE RESIDUE REGULATION

NATIONAL ORGANIZATIONS

American Bakers Association

American Farm Bureau Federation

American Feed Manufacturers Association

American Frozen Food Institute

American Meat Institute

American Peanut Products Manufacturers

American Soybean Association

American Sugarbeet Growers Association

Biscuit and Cracker Manufacturers Association

Chamber of Commerce of the United States

Food Marketing Institute

International Association of Ice Cream Manufacturers

Milk Industry Foundation

Millers National Federation

National Agricultural Chemical Association

National Association of State Departments of Agriculture

National Association of Wheat Growers

National Broiler Council

National Cattlemen's Association

National Corn Growers Association

National Cotton Council of American

National Council of Farmer Cooperatives

National Grain and Feed Association

National Pasta Association

National Pork Producers Council

Rice Millers Association

United Fresh Fruit and Vegetable Association

Grocery Manufacturers of America, Inc., 1010 Wisconsin Avenue, N.W., Washington, D.C. 20007•(202) 337-9400•TWX: 710-8229364

Submitted for the record:
Testimony on the Farm Bill
Wheat and Feed Grains Subcommittee
Committee on Agriculture
Congressman Byron L. Dorgan
of North Dakota

WE NEED A FARM BILL THAT PRESERVES THE FAMILY FARM

Mr. Chairman, I appreciate the opportunity to present my views on the 1985 farm bill. Agriculture is the leading industry in my state of North Dakota, so the shape of the farm bill is of critical importance to us.

Before we look at where we should be on farm policy, I think it would be useful to look back to see how we got where we are.

Democrats and Republicans alike agree that this Administration has been disastrous for agriculture. It's true that the Nixon embargo on soybeans, and the Carter grain embargo, had major negative impacts on U.S. agriculture. But for an all-out sustained assault on our farm economy, this Administration wins hands down.

The root cause, it seems to me, is a philosophical aversion to running a farm program. This Administration's laissez-faire "market oriented" approach backfired when bumper crops in 1981 and 1982 built up the huge surpluses that necessitated the PIK program -- the most expensive market intervention program in our history.

To be fair, not all the blame can be laid at the door of the Secretary of Agriculture. A good share of it can be assigned to the Office of Management and Budget, and beyond that, to the White House itself.

Certainly our huge budget deficits, the direct result of misguided "supply-side" economics, have had a devastating effect on agriculture. The resulting high interest rates and overvalued dollar are two of the major culprits undermining today's farm economy.

The sad thing is, however, that this very popular president still hasn't learned anything about running a farm program -- or balancing the budget. The Administration's farm bill is so far out of touch with reality that the most frequent words used to describe its reception are "Dead on Arrival." And the Administration continues to submit budgets with deficits of breathtaking proportions.

Today, we're staring disaster in the face again in our farm economy. Interest rates for farmers remain high; commodity prices low. Carryover wheat stocks are at record highs -- 1.441 million bushels. While the rest of the economy has experienced significant recovery, agriculture has lagged behind. The President's so-called jocular solution -- to export our farmers -- showed a callous insensitivity to the heartache thousands of our family farmers have felt as they have reluctantly shut down their farms and turned them over to their local banker, Land Bank, or the Farmers Home Administration.

The universal rejection of the Administration's farm bill does have a silver lining, however. It allows us the opportunity to draft a fresh new approach to the farm bill. It allows us to take a look at how agriculture has changed over the past 50 years since New Deal farm programs were put in place, and try to figure out how they should be changed to reflect the new reality of the structure of our farm economy.

In the 1930s, almost every farm was a family farm. Now, we have California agrifactories where production is measured not in bushels per acre, but in tons. And yet, the same farm programs that were set up to serve family farmers also serve the megafarm, a corporate structure already enjoying substantial tax code benefits that are not available to family farms.

To me, the message is clear. If we want to preserve our network of family farms -- the network upon which our unsurpassed agricultural productivity is based -- then we can no longer afford to hand out farm program benefits with blinders on. Why should a California farm, stretching as far as the eye can see -- and that's as far as the eye can see from an airplane -- have every single bushel of wheat supported by the federal government? Why should irresponsible sodbusters who tear up the fragile Colorado ecosystem be paid to grow wheat where no wheat should be grown?

It's clear to me that the answer is, they shouldn't.

THREE FARM BILL GOALS

But before we do write a new farm bill, we need to be clear about what we want it to accomplish. I believe we should have three major goals:

- o Keep family farmers on the land -- not for sentimental reasons, but because they are the backbone of our agricultural economy;
- o Practice budgetary responsibility -- and that means we can no longer afford to underwrite the risk-taking of the high rollers;
- o Regain our competitive edge in world markets -- through reducing the deficit, but also through smarter marketing of our commodities.

The first two points can be taken together. We need to preserve as many family farms as we can, at the same time we prevent the kind of skyrocketing agriculture expenditures we saw under the PIK program -- a spending orgy that did much damage in discrediting agriculture programs here in Washington and across the country.

My approach to the Wheat and Feed Grains title of the farm bill accomplishes these two ends. It takes a reasonable amount of our federal resources and targets them to mid-size and smaller farm operations. It does this by providing a target price that will give real income protection to family farmers, but limits deficiency payments to the first units of production -- 12,000 bushels of wheat, and 15,000 bushels of corn. At the same time price support loans would be capped at $150,000 per producer.

The beauty of this plan is that it allows the big boys to do what they like to say they do best -- use every buying and marketing advantage, every provision of the tax code, to produce as much as they can. The difference under my approach would be that they get their production signals from the market, not from the Commodity Credit Corporation.

This plan evens out the playing field for the family-sized operator who doesn't have the luxury of tax-loss farming -- he's feeding a family, not lining tax shelter pockets.

The Congressional Research Service has run computer models of my program with target prices close to the cost of production ($5.25 for wheat in crop year 1986; $5.41 in 1987; $5.57 in 1988; and $5.74 in 1989). These computer runs show that we can have a farm program that costs less than the current services level, yet provide a substantial measure of income protection to our family farmers.

I would also like to comment on the mandatory supply control/increased support price proposal which is being suggested by Texas Agriculture Commissioner Jim Hightower as an alternative approach to the farm bill.

I am in strong agreement with a number of the concepts contained in this plan. First, I support its targeting of farm program resources to family farmers. A basic flaw in current farm policy is that the bulk of farm program benefits go to those very large producers, including corporate farms, who need them the least. For example, in 1982 the top 10 percent of wheat growers received 43 percent of government assistance from the crop programs.

Second, I support its de-emphasis on paid diversion. Supply management through paid diversion can only work by paying huge sums -- as we did in the PIK program -- to our largest producers, many of whom are already enjoying substantial corporate tax benefits not available to family farmers.

This is not the time to throw farmers into a non-existent free market, nor is it a time to simply hunker down in the trenches and hope that things get better. The bold approach which the Hightower plan represents is the kind of thinking we need to solve the serious problems facing our farmers today.

INCREASING AGRICULTURAL EXPORTS

The third major element needed in the farm bill -- regaining our competitive edge in world markets -- is a complex puzzle. To what extent has the strong dollar been at fault, as our agricultural exports have declined from $43.8 billion in 1980 to $34.3 billion in 1984? To what extent do our competitors' tougher grain standards come into play? Foreign subsidies? Better market development? Failure to aggressively use food aid to win friends -- and cash customers. To what extent could reviving a government-to-government barter program, which would trade our surplus agriculture products for strategic materials (as we did so successfully between 1950 and 1973), build markets and reduce costly surpluses?

It is my strong feeling that no avenue in export development should be overlooked. Three efforts, in particular, deserve serious attention: government to government barter; PL 480; and alcohol fuels development.

GOVERNMENT-TO-GOVERNMENT BARTER MAKES SENSE

We should revive a government-to-government barter program which would trade our surplus agricultural products for strategic materials now in short supply in our defense stockpile and the petroleum reserve. This country had such a barter program between 1953 and 1970 which moved almost $7 billion worth of our surplus agricultural commodities, in exchange for strategic materials and services needed by the United States overseas.

Congress should do more to directly encourage the Executive Branch to enter into barter trades. One approach might be to mandate that the Department of Agriculture use CCC stocks in a pilot barter project which could demonstrate barter's workability. Another would be to appropriate pump-priming money to the Commodity Credit Corporation to allow them to cover the initial costs of a barter program. I have introduced a bill that would accomplish this, H.R. 1766.

FOOD FOR PEACE

The second market development initiative we should focus on is the Food for Peace program -- seven of our top ten agricultural export customers are former P.L. 480 recipients.

I am working with my colleague Rep. Tony Hall on a food, trade and development bill which will strengthen the Food for Peace Program in three ways:

o increase the minimum tonnage under Title II, the food aid donation program, to meet anticipated needs in poor nations;

o authorize multi-year programs, to increase the effectiveness of aid planning;

o increase flexibility of Section 416 food aid by allowing a portion to be sold by U.S. relief agencies in the recipient countries to buy tools and materials for food-for-work programs.

INCREASING DOMESTIC MARKETS WITH ALCOHOL FUELS DEVELOPMENT

Finally, we cannot afford to overlook domestic market expansion opportunities. One of the brightest of these, I believe, is alcohol fuels development. The recent EPA decision reducing lead levels in gasoline (fuel alcohol is lead-free), and the continuing strife in the Middle East, behind which the threat of an oil supply disruption is always lurking, lend increased impetus to developing this process, which turns our agricultural commodities into a high-octane fuel as well as other useful co-products such as animal feed.

The challenge is great. But so are the resources and ingenuity of this country and its citizens. We need to apply them both, with the greatest wisdom we can muster, to the 1985 farm bill.

PRESENTED BY JANICE GARRETT

ROUTE 1, BOX 81, MINDEN, NEBRASKA 68959

NATIONAL WIFE FEED GRAINS COMMODITY CHAIRWOMAN

WOMEN INVOLVED IN FARM ECONOMICS

Mr. Chairman, Members of the Committee: I wish to submit my testimony on the farm economy which I believe is on the verge of collapse. It is a deteriorating situation which I feel desperately demands your immediate attention.

My name is Janice Garrett. My husband and I, along with our children, are farmers who own and rent farm and grassland in the south central part of Nebraska. We are the third and fourth generations to care for this land, some of which has been owned by our family for one hundred years. We have a medium-sized diversified operation which consists of 300 acres of irrigated corn, a 50-head registered cow-calf herd, and a small amount of alfalfa hay.

I am representing WIFE, Women Involved in Farm Economics, as their National Feed Grains Commodity Chairwoman. The members of our grassroots organization are determined to work closely with other organizations in finding a workable solution to the financial crisis confronting Rural America.

I come before you today because of my great concern about what is happening in Rural America. The most dependable and efficient producers of food and fiber this world has ever seen are being forced from the land because of a lack of profit being generated by the raw products we are producing. As we face the reality of 250 farmers going out of business today and every day under present conditions, no one recognizes the need for the development of sound agricultural policy more than we who are involved in production agriculture. The destiny of the few commercial family farmers and ranchers who are left depends on farm policy that will provide the opportunity for profit. We believe this will result in the well-being of all ag-related industries, the viability of Rural America, and the economic stability of the entire nation.

WIFE recommends that policy-makers enact into legislation and/or refine the following points which we feel are compatible with recommendations from other leading farm organizations.

COMMODITY PRICE -- The foremost issue is price. Policy must be made which will establish and protect a price recovery system for commodities in the market place, that allows a profit to the producer. All other recommendations for a 1985 Farm Bill are so closely tied to this most important point of A PRICE FOR OUR PRODUCTS THAT ALLOWS US TO REALIZE A PROFIT, that to cure our other problems and ignore it will negate any and all time, money and effort exhausted! Our industry is different from all others in the fact that we do not have the opportunity to price our own products. Any other business is able to monitor its cost of production, add a fair profit and set its own price. With agriculture, government is involved in decisions, economic and otherwise, and virtually every decision comes down on the side of plenty to insure a ready supply of cheap food for its people, the majority of which are not involved in producing that food. If the farm producer is expected to subsidize the American consumer with cheap food at the grocery store, then we must be protected at the other end in order to insure a supply.

WIFE joins other farm groups in their concern over SUPPLY MANAGEMENT. The program must provide, along with a loan rate keeping pace with cost of production, a well-defined mechanism for balancing production with domestic and export consumption levels and a reasonable carry-over. We strongly recommend that such set-aside or supply management program be on a unit basis.

Closely tied to production controls should be a conservation program which will encourage and enable the U.S. farmer to use conservation practices. To preserve our valuable land in its best condition for future generations requires that a long-term commitment be made by the American public.

FARM CREDIT -- To insure that the credit needs of the U.S. agricultural industry are adequately met at the lowest possible interest rate. Our myth of a free-enterprise system is slipping too close to a government-owned agriculture system. Of the $215 billion in farm debt, $25 billion is held by FHA, just one of a handful of federal agencies that lend money to agriculture. SBA farm disaster loans for last year amounted to $2.2 billion through November. One study shows Federal agencies holding at least 54% of the agriculture debt.

This past month I participated, along with other farmers and ranchers, in a roundtable discussion with representatives of the Eighth farm credit district banks of Omaha covering Iowa, Nebraska, South Dakota and Wyoming which included Federal Land Bank, Federal Intermediate Credit Bank, Bank for Cooperatives and Production Credit Associations. Their year-end statistics show a considerable deterioration in net worth and earnings from 1983. Without exception, there were increases in delinquencies, foreclosures (Nebraska showing a 600% increase alone!), loan charge-offs, and acquired properties. These numbers did not show voluntary liquidations. In discussing these problems with WIFE members from other areas, I feel this is a representative condition. It is a fact that credit extended to farmers without realizing a profit from our commodities, only drives the farmer deeper in debt. As for the FHA servicing the problem, the insurmountable amount of paperwork, coupled with a lack of personnel, results in a program that is doomed to failure from the beginning. A debt write-off program, as is done for some foreign countries, may be required in order to insure a continued supply. So once again we come back to the problem of pricing our products that I talked about in the beginning. We need a positive income.

LONG TERM PROGRAM -- Must be bi-partisan, withstanding changes in the administration, with flexibility for adjusting to changes on domestic and world economies.

If working within the framework of presently established USDA programs, we would like to recommend these policies be included. Price protection in the form of loan rates or target prices must be established at no less than the cost of production and should cover all agricultural commodities. WIFE stands on record as opposing the $10,000 cap recommended by the administration because it would only help the part-time farmer who has another source of income. According to University of Nebraska studies, the family farms who produce a large share of our products are caught the tightest in the present financial squeeze. Mid-size family farms with gross sales of $10,000 to $250,000 annually include 40% of the total U.S. farms and produce 40% of our commodities. Of these, 33% are in economic stress with a debt-asset ratio of 40% to 70%. Because of this, it is my own personal belief that realistic payments should show a preference to the middle-sized family farm. WIFE defines a family farm as a form of business enterprise in which the management decisions are made by a family engaged in the production of food or fiber for profit, which is intended to provide the major source of income and capital for investment.

A commodity reserve program, farmer-held, should be continued at a reasonable level and be implemented in a manner that will not create a depressed market. The ability of this country's farmers to produce more food than is needed should be considered a national asset, with the entire nation taking responsibility for its protection.

Long-term legislation should include a revolving loan fund in the CCC to eliminate the need for annual budget outlays for our commodity loans. Of the total USDA budget for 1985 of $37,742 billion, 27½% is used for commodity programs. The fact that only a fraction of the total USDA budget actually reaches the producer is widely misunderstood by the public.

I would like to refer you to what I consider a very important study recently released from the Food and Policy Research Institute, hereafter referred to as FAPRI. This was a joint effort by the University of Missouri and Iowa State, founded by Congress, analysing the consequences of different policy programs. FAPRI's computerized findings were not yet available when our national steering committee met in late January. For this reason, I personally urge you to take them into consideration when addressing the problem of farm income. Briefly, as I understand it, an increase in foreign demand shows farm income remaining about the same. Voluntary programs don't offer much hope for improving farmers' incomes. Continuing present programs offers little change. Market-oriented policy would leave farmers with less income. Turning to a mandatory control program could bring a bigger boost to farm income, but only by imposing tight controls and shrinking the volume of the agricultural plant.

WIFE opposes a recourse loan policy that would only act as a cash flow tool and would no longer be a price protection devise.

We urge changes in the U.S. trade policy to develop and expand our export markets for all agricultural products, at or above the cost of production, with the producers realizing at least a share of the benefit. With 2/3 of our present feed grain production being used domestically, and the remaining 1/3 being shipped abroad, exports are essential to a healthy U.S. agriculture. However, to expect exports to stop the collapse of agriculture and agribusiness is false and misleading. WIFE asks that an export credit revolving fund be appropriated. We feel that implementation of this fund is vitally needed.

Our organization believes we need strong embargo protection. We believe government embargoes weaken the marketing credibility of our nation and are directly responsible for losses of income to the American agricultural producer. We believe that in the case an embargo becomes necessary for the defense of this nation, that it be a complete embargo of all U.S. technology and products with steps taken to insure that American products will not arrive in the embargoed nation through a third party. In such cases when agriculture products are used as weapons in setting foreign policy, compensation should be paid through the Defense Department Budget to the producers of said products.

Finally, WIFE calls for a renovation of the Federal Crop Insurance program which will put the ASCS offices in charge of determining which land is insurable, and that there be a direct relationship between coverage and premium.

Those of us in production agriculture have become victims of a point in time when ill-advised and uninformed administrators have implemented policies designed to halt the normal transaction of a successful agricultural business, and the transition of land from one generation to the next. Depression, not only of a financial nature, but depression of a mental nature is destroying the farmers' will to continue the fight for economic justice much longer.

Until this nation's largest industry, largest consumer and largest employer -- AGRICULTURE -- is healthy and profitable, generating real income rather than debt, generating income and tax revenues with each dollar turnover and able to purchase those urban-produced goods and services, we will not see a full economic recovery in the nation.

I submit to you that the U.S. constituency has a shared interest in what happens to agriculture. As they again realize the impact agriculture has on their own lives, their financial well-being, and their future, they must demand a profit for the agricultural producers of this country.

This testimony has addressed current WIFE proposals for the 1985 farm bill as of March, 1985: 1. Commodity prices; 2. Supply management; 3. Conservation; 4. Farm Credit; 5. Long term program in relation to 6. Price Protection; 7. Cap; 8. Commodity Reserve Program; 9. Revolving Loan Fund; 10. Recourse loans; and refers to 11. Exports and 12. Export credit revolving fund; 13. Embargo Protection; and 14. Federal Crop Insurance.

WIFE Women Involved in Farm Economics

TESTIMONY OF

MARSHA JONES

NATIONAL WHEAT COMMODITY CHAIRWOMAN

Mr. Chairman and members of the Committee: I would like to thank you for giving me the opportunity to address this committee.

I am Marsha Jones, and I'm here today to represent Women Involved in Farm Economics (WIFE). I am the National Wheat Commodity Chairwoman elected by the wheat producers of WIFE.

My husband and I farm and ranch in northeastern Colorado. I am an active producer that participates in the cropping procedure. Our main commodity is wheat. We entered into the farming profession during the early seventies when the government was wanting the American producer to produce as much wheat as possible for export. Today it appears that the administration is again asking us to produce for the export market, this time with the intention of marketing this wheat far below the cost of production.

The wheat program that will be written into the Agricultural Adjustment Act of 1985 is of utmost importance to the survival of the American wheat producer, their communities and our nation's economy.

I would like to inform you that the wheat producers of this nation are in trouble. We have been marketing wheat for several years below the cost of production. We have been borrowing against our assets to stay in business to produce the food for this nation and the world. Let me ask you, how long do you think we can do this before we no longer have assets left to borrow against and can no longer find the operating capital that is needed to produce this wheat?

WIFE feels that a cheap food policy at the expense of the producer cannot go on any longer. The "American consumer", a title which includes farmers who are the largest consumer in this nation, has the cheapest, most bountiful supply of food in the world. If wheat were $ 6.00 a bushel, a pound of wheat would cost a thin dime. That would make the wheat in a loaf of bread worth 8 cents. A onepound loaf of bread would cost 58 cents up 4 cents from the cost of a loaf of bread in 1983. In 1983 the total price spread between the farm and retail store for a loaf of bread costing 54.2 cents was 49.1 cents, a record high. (USDA figure)

Common sense tells us that exporting commodities below the farmers cost of production will not help our nation's economy.

The administration's proposal for the Agricultural Adjustment Act of 1985 is claiming that a market oriented program will permit the

U.S. farmer to challenage his competitor in world markets, but everytime a bushel of wheat is sold at home or abroad for less tl it costs to produce it we are giving away the real earned wealth our nation.

Reducing the federal deficit in an effort to balance the budget, which would in turn devalue the dollar would be a more effective method of making U.S. agricultural commodities more competitive on the world market. Our foriegn buyers are paying 30% more for a bushel of wheat today than they did three years ago but American wheat producers are being paid 20% less than they were three years ago because of the value of the dollar.

WIFE would like the wheat producer to beable to enter into a fair marketing system, but we cannot compete with treasuries of other nations who highly subsidize their producers. We cannot compete with governments who must export and will do so at any price. We cannot produce at U.S. prices and sell on a world market. If we are to become a market oriented supplier and sell our wheat at world prices the government must share the cost.

We feel that until the wheat producer of the U.S. has regained a larger share of the world market that a supply management system must be implemented. It must be a mechanism that truely will reduce the production at the market place. WIFE supports a bushel allotment to control production. The acreage reduction system of the past does not appear to have worked. Cutbacks based on bushel allotments would prove to be more effective than acreage reduction, cheaper to control and would create a more accurate reduction. A 30% reduction would truely mean 30% less wheat on the market. A bushel allotment reduction should not be left to the discretion of the Secretary of Agriculture who is far to vulnerable to pressure from cabinet officials, state departments and social groups but should be based on a scale contingent upon an annual review of the actual carryover wheat stocks.

WIFE opposes the caps proposed by the administration and feel they would make any reduction program ineffective by eliminating incentives for larger producers to participate.

WIFE supports a target price that will reflect a realistic cost of production plus a profit with an escalating clause using the cost of living index. A standard of economy must develop in which when the product of an hour of labor in agriculture will trade for an hour of labor in any other sector of the economy.

If developing the Agricluture Adjustment Act of 1985 a system of price and income protection to avoid disaster for the nations producer must be formulated. Loan rates must be set at a realistic cost of production (not less than 75% of parity) and they must be non recoarse loans. When we say loan we mean just that. The money is paid back with interest. It is not a subsidy or a gift by any stretch of the imagination.

WIFE supports a normal crop acreage (NCA) as a requirement for support prices, loan, target, and disaster. A consistant and constant NCA is necessary to implement an efficient, fair and realistic reduction program in years when the carryover stock signals a reduction is needed.

Reserves were designed to insure a constant and adequate food supply, for our American public and a percentage of the world population. As this insurance reserve is considered a necessity, it therefore needs to be protected. To protect the reserve, and at the same time not jeopardize the farmer's already low income level, this reserve must be farmer held. The farmers who are storing the grain must receive adequate storage payments.

Reserves can and do act as an interim financing tool for farmers who enter the reserve, therefore proper management of released grain is essential. The committee must provide a mechanism to prevent massing dumping in the market when the release level is triggered. Continuing storage payments is a possible answer.

WIFE supports the P.L. 480 program. It has proven to be an effective program for foriegn assistance to the under developed countries plus has assisted in developing long-term markets for our wheat producers. WIFE recommends that funding be increased, and that flour and any other by-product from alcohol fuels be added. If we are to become market orientated, the markets have to be developed. We support adequate funding to be provided to educate and inform the recipients of nutritional value of our product and its by-products.

We are strongly opposed to having agricultural products singled out and used as a political tool in the impositions of embargoes rather real or implied. The U.S. government has weakened our export markets. We have lost our credibility with our foriegn buyers, and have been viewed as not being a dependable source. We recommend that agriculture not be singled out for embargo action unless it is a complete embargo of all U.S. technology and products. We recommend the reauthorization of embargo protection provisions adopted in the 1981 Farm Bill.

WIFE has diligently worked in Washington during the writing of the last two farm bills. We appreciate the opportunity to participate in our governmental processes. Our goal is a strong agricultural economy which would create a strong national economy. We understand the task you have in writing this complex piece of legislation and we know you will remember that it could either make or break the American family farm as our nations food producer.

Thank you for your interest in the welfare of Americas agriculture.

STATEMENT FOR 1985 AGRICULTURE ACT HEARING

NATIONAL BARLEY GROWERS ASSOCIATION

415 - 38th Street Southwest
Fargo, North Dakota 58103-1113

The invitation to the National Barley Growers Association to present statements relative to sections of the 1985 Agriculture Act that would affect barley is much appreciated.

The National Barley Growers Association considers five items that should be dealt with in the 1985 Bill that directly or indirectly affects the well-being of the barley producer.

1. Cargo preference should be dealt with directly and this burden transferred from the farmers back. Again, we support a strong merchant marine, but feel the entire country should have a hand in its support - not just the farmer. Export of commodities for 1985 has fallen from early season expectation, and at present the drop in exports of barley now appears to be 10-15 million bushels below early season forecast. We recognize that this is perhaps due to factors other than the cargo preference law, however, if we have problems now, adding the $15-25/ton premium cargo preference extracts will not enhance our exports.

   While on the subject of exports, we would also draw attention to the fact that embargoes and the lack of credit support - have a direct bearing on export potentials. It has been shown that the foreign buyer is interested in an adequate and stable supply. Because embargoes threaten and disrupt sales, the Association opposes imposition of embargoes and boycotts. The 1985 Farm Bill should reflect opposition to the use of these procedures.

2. The National Barley Growers Association supports inclusion of a provision in the 1985 Farm Bill returning barley target price to an equitable level with corn. The target price for barley has been held at $2.60 per bushel for the past four crop seasons, while corn target has been increased 26.3 percent during this same period. Prior to 1981, the target price for barley had been based on cost of production - since it has been based on relationship to corn. However, we do not feel there should be a 26.3% disparity between the increase in corn targets and the static level of barley target.

3. The National Barley Growers Association further supports changing the starting date from June 1 to August 1 in establishing average prices of barley for deficiency payment determination. At present, the months of June and July reflect primarily sales of old barley in the marjor barley producing areas. In establishing August 1 as the initial date, all five months would reflect primarily current crop sales. The top six producing states produce over 75% of the United States crop. These states are predominantly spring barley production areas, thus harvest generally does not start until late-July or early-August.
4. The National Barley Growers Association supports continued and increased funding of export credit assistance programs through PL 480, direct credits, export loan guarantees, or a blend of these credit lines as a method to interest foreign buyers in United States barley. The National Barley Growers Association opinion is that the availability of these credit lines will enhance the export market and aid in stabilizing producer income. The Association also requests that barley be given consideration when agencies are establishing eligibility for credit.
5. The National Barley Growers Association supports removal from the 1985 Farm Bill reference to the exemption from compliance with acreage limitations for eligibility to participate in loan programs as extended to malting barley production. This exemption promotes production that causes supply buildup resulting in greater reliance on government support programs and acts as a general price depressant. This feature has not been used to any great extent in the past, and it would seem the malting and brewing industry does not need this protection. At the time it was written into law, anticipation was that demand for malting barley would increase at a rate faster than production could match.

   However, because of changing product demands, that malt market has ceased to expand, and in some years actually decreased as indicated by a review of the past five seasons.

Barley use for beverage production in 1979 was 150.9 million bushels; 1983 was 146.0 million bushels. Also in 1983 - U.S. industry imported over six million barrels of beer and this market appears to be increasing. Industry is essentially exporting a part of the U.S. demand for malt.

National Barley Growers Association feel the 1985 Farm Program should reflect the ability of the United States to be a stable source of quality products for the world market. We support programs that enhance development of export markets. The Association will testify when and where necessary in support of its position.

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